# HAVANT BOROUGH COUNCIL
# STATEMENT OF ACCOUNTS

2017 - 2018

Havant
BOROUGH COUNCIL

# Contents

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

# NARRATIVE STATEMENT

**Introduction to Havant Borough Council**

The Statutory Accounts have been prepared in accordance with the requirements of the Chartered Institute of Public Finance and Accountancy (CIPFA). It therefore aims to provide information to the public, including electors, residents and businesses of Havant Borough; Council Members, partners and other stakeholders of Havant Borough Council.

The Statutory Accounts aim to provide:

An understanding of the overarching financial position of the Council.
Confidence that the public funds entrusted to the Council have been accounted for appropriately.
Assurance that the financial position of the Council is robust.

**Structure of the Narrative Statement**

The Narrative Statement is structured into:

Key facts about Havant Borough Council
Chief Finance Officer (Section 151 Officer's statement)
Performance against Business Plans & Council Strategy
Financial performance
Budget / MTFS 2018/19
Explanations of financial statements.

**Key facts about Havant Borough Council**

Havant Borough Council is responsible for services such as waste collection and recycling, council tax collection, leisure services, planning, housing, building control, environmental health, car parking and economic development. Policies and strategies are developed and determined by our 38 councillors. The Council employs 248 full time equivalent members of staff serving a population of 124,900.

Havant Borough Councils' mission, as elected leaders and public servants is to play our part and shape council services to ensure that the communities of Havant Borough will be increasingly prosperous, vibrant and active. The Council will put our customers at the centre of everything we do.

In recent years the Government's austerity measures have placed significant financial pressures on the Council and will continue into the foreseeable future.

Our operational priorities that will help us deliver our corporate strategy mission are; financial sustainability, economic growth, environmental sustainability, public service excellence and creativity and innovation.

Overall Financial Position

The revenue outturn position for the year was a deficit of £601,216 before transfers from the General Fund to cover unforeseen IT cost arising from the delays to the IT Capita contract implementation of £756,791 and making provision for contract termination costs arising from stopping the transfer to Vinci, the final position is £163,260 surplus after transfers.

This is a real achievement against £1.8 million of targets set as the 'Budget challenge' that was included within the 2017/18 budgets. These have been offset through income growth and operational efficiencies.

There are a number of variances which are reported in full at page 9. These can be divided between those which are controllable by the organisation and those that are not, such as variances arising from changes in legislation, accounting adjustments (such as depreciation), pension adjustments, services changes and as already mentioned above contract implementation delays.

The Council's overall financial position remains sustainable with adequate levels of reserves. There are robust processes in place for budget setting and forecasting, and the Council has in place a Medium Term Financial Strategy (MTFS) that is both understood and owned by the business managers. There are sound systems in place to ensure that financial performance is understood, and that cash is collected, that debtor balances are minimised, and all funding streams are exploited.

The MTFS agreed by Council in February 2017 shows ongoing surpluses with a cumulative surplus of £3.13m.

| | 2018/19 | 2019/20 | 2020/21 | 2021/22 |
|---|---|---|---|---|
| | £m | £m | £m | £m |
| Annual Surplus | Nil | £ 0.53 | £0.93 | £1.68 |
| | | | | |
| Cumulative Surplus | | | £1.46 | £3.13 |

In the previous year the Council entered into a partnership with five other authorities to transfer services to Capita and Vinci[1]. The contract has now entered the implementation stage and has included HR services, Finance services and IT services, and the transfer to a new software system for finance. Work will continue within the next 12 months to move towards a full implementation of Target Operating Models and the transfer of Payroll services to Belfast.

After completing further due diligence work the partnership asked Vinci to stop the implementation of the contract, Havant were not affected as such as we had not commenced the transfer across into the new contract.

**2018/19 Onwards**

Since 2010 local government has borne the brunt of the Government's austerity measures which has resulted in significant public spending reductions and shows little sign of easing.

There remains continued uncertainty against future Central Government funding for local authorities along with known funding reductions which have been captured through the Medium Term Financial Strategy. Future shortfalls continue to be mitigated through ongoing service transformation and commercialisation.

The inclusion of commercial income growth and savings achieved through service transformation have been captured in the budget and are both innovative and challenging. There is a risk that, should these targets not be achieved, the Council will need to draw on its reserves in future years, although this is not anticipated. The Council has sufficient reserves to mitigate this risk but use of reserves would not be sustainable in the medium term.

[1] Known as the Five Councils Contract/Six Councils Partnership

As in previous years it will be necessary to closely monitor the achievement of income challenges and efficiency savings during 2018/19 and the potential impact on the General Fund Balance during future years.

Despite all the additional demand pressures, austerity measures and national funding cuts in public services Havant Borough Council has continued to provide high quality services to its residents.

In November 2017 the Bank of England increased Interest Rates and indicated that there would be further small increases if the economy continued growing, the first of these rises was expected in May 2018 but has been delayed due to the slowdown in economic growth forecasts.

**Key Issues for 2018/19**

**Accounting Code and Prudential Code (2017/18)**

CIPFA introduced a number of minor amendments to the 2017/18 Accounting Code and published a new version of the Prudential Code, the full impact of these changes will need to be reflected in the 2018/19 accounts.

**General Data Protection Regulation (GDPR)**

The Council has taken a project based approach to the implementation of GDPR and continues to make progress in ensuring measures are in place in line with the Information Commissioners Office (ICO) guidance. An independent review of the implementation thus far has highlighted where the Council will focus activity as part of Stage 3 of the project, which will be progressed through 2018. An audit by the Southern Internal Audit Partnership has also confirmed that the Council's implementation is sound, and the 12 steps as advised by the ICO are appropriately covered.

Lydia Morrison
Chief Finance Officer (s151)

**Performance against our Corporate Strategy 2017/18**

Havant Borough Council's mission is to ensure that the communities of Havant will be increasingly prosperous, vibrant and active, putting customers at the centre of everything we do. The strategy to deliver this is to develop a mixed economy of service delivery, with a strong focus on commissioning high quality services.

Our corporate strategy is focused around operational priorities grouped into the following areas; financial sustainability, economic growth, environmental sustainability, public service excellence and creativity and innovation.

*Financial sustainability*

We are committed to ensure that our council services contribute to us being financially sustainable in the environment of reducing government grant, and being affordable to our customers. During 2017/18 we continued the Council Tax freeze with no service reduction and continuing to provide excellent customer service for people of the Borough, despite the fall in government revenue support grant.

2017/18 saw the second year of our successful joint venture, Norse South East. Norse South East provides our operational services to residents and during its second year of operation met its financial targets and delivered £51,263 of income back to the Council. During the year Norse continued to grow new services such as, providing MOT services at the depot as well as a commercial waste service collection scheme.

2017/18 saw the implementation of the ground-breaking partnership between six councils and the delivery partner Capita. The Six Councils Partnership is the first-time local authorities have looked beyond their immediate neighbours to share services to utilise their vision to deliver improved and more affordable services. Newly outsourced services at HBC include the HR Service, which will implement new HR and payroll systems across the partnership, Land Charges, the IT service and the Finance service, with new finance software as part of the system upgrades. Capita continue to provide frontline customer services as well as our revenues and benefits service. Following a review of the contract to ensure it reflects the requirements of the council, the contract has been renegotiated and in doing so the Licensing Service was removed and retained in-house, and the Procurement Service and Innovation Hub were simplified to ensure maximum benefit is achieved. As a result, the headline savings overall have reduced although the councils have greater security on their deliverability. The Council is confident that the best outcome in the circumstances has been achieved. Retaining the ability to work collaboratively with the other partners and contractors to undertake transformation work is likely to recover the reduced savings and provide greater opportunities for financial return in the longer term.

The Partnership asked Vinci (provider of Property, Print, Post and Design Services) to stop implementation in order to pursue a different delivery model at the end of 2017/18. Steps were immediately taken to ensure this service and associated staff will continue in house from April 2018.

*Public Service Excellence*

Our priority is to support our most vulnerable customers. Homelessness prevention work has been maximised during the year and we considerably exceeded the target of 1050 prevention outcomes with a total of 1266 for the year. We successfully implemented arrangements arising from the new Homelessness Reduction Act with staff training and new rotas in place to assist customers. Work has focussed on providing support to those families impacted by the Housing Benefit Cap and future possible impact of Universal Credit. Supporting Families in Havant saw a total of 130 families engaged with the programme, some 70 families received an intensive level of support with three or more situations including homelessness, worklessness, poor school attendance, health issues, domestic abuse, crime and anti-social behaviour.

## NARRATIVE STATEMENT

We became the Locally Trusted Organisation (LTO) for the WeBig Local Wecock Farm project, holding the £1M in funding and supporting the project to deliver its aims. We were successful in our Active Ageing bid to Sport England, securing a total of £147,000, with work completed to inform delivery. We delivered various Making Every Contact Count (MECC) session as well as two Dementia Friendly sessions delivered to Councillors and launched our Havant Community Lottery. Charities and community groups registered with the Havant Community Lottery which with 60p from every pound directly supporting local good causes.

A number of community infrastructure projects were progressed during the year, including £1.6M spent to provide a full refurbishment of the Leigh Park sports facility, Front Lawn Recreation Ground. The improvements allow for better opportunities for skills and employability training, opportunities to get active and extra capacity for local sports teams. In addition, the historic Bidbury Mead Pavillion was refurbished which allows for the facility to remain sustainable and offers increased flexibility for future use. During the year community infrastructure levy spending was agreed with more than £1M earmarked for new infrastructure and community projects over the coming years.

The council continued to deliver community events. During the year a number of major events took place in the borough, the Emsworth Food Fortnight, Windsurfing Festival, Virgin Kitesurfing and annual Fireworks, showcasing the borough on a national scale and engaging with the local community. More than 70 students from the borough joined the Mayor, councillors and community groups for the fourth annual Youth Conference in March. In addition, the annual Junior Citizen event also took place, attended by over 1000 school children from local schools it aims to teach children key life skills and importance of being good citizens.

*Creativity and Innovation*

Havant Borough Council is an exciting and vibrant place to work. The Council provides community leadership and is at the cutting edge of innovation and best practice. Our Public Service Plaza provides a working environment which is shared with several important public, private and voluntary sector partners. The Plaza is a centre of excellence and is vital to the integration of public services and we continue to explore opportunities to grow the Plaza. Work took place during the year on further options for maximising the Civic Campus through funding provided by One Public Estate.

We are committed to developing and supporting our staff. We continued to develop a modern and effective employment package for our staff. Heads of Service and Team Leaders have completed a comprehensive HR skills programme. This has included information on policies and procedures in addition to appropriate decision making in respect of people management matters. We have continued our quarterly You're a Star staff awards, and our annual staff awards took place in December 2017, recognising individual and team achievements. We also held a Leadership Conference for our current and future leaders and have developed our Fit for Plan. Our Councillors have also been involved in a Councillor Development pilot and were successfully awarded Councillor Charter status accreditation during the year. Work now continues to embed councillor development

Innovative initiatives taken forward during 2017/18, include the 6-Councils Partnership and the continued growth of our joint venture Norse South East. In addition, our involvement in the Eastern Solent Coastal Partnership, formed in 2012, continues. This innovative initiative was driven forward by the need for coastal management that recognises coastal flooding and erosion risk impacts not exclusive to local authority boundaries.

**Our Place Shaping work**

*Economic growth*

Our economic strategy 'Prosperity Havant' is helping to transform our towns and businesses, encouraging inward investment and high growth companies to be based in the borough. Encouraging businesses will create jobs and improve residents' quality of life. During 2017/18 we continued to support our local businesses, a total of nine companies within the borough were supported with almost £500,000 in grants secured for those businesses. We have sought to promote the borough as a place to invest with a presentation given at a major regional event in February 2018 to promote development opportunities, incentives and the benefits of Havant as a primary investment location. We are currently handling four major inward investment enquiries for locations at Dunsbuy Hill, Harts Farm Way and Brockhampton.

We continued to support employment and apprenticeship opportunities in the borough. 10 local people benefitted from apprenticeship training in 2017/18 with an initial £60,000 invested in local construction training. A construction training contract was awarded to Portsmouth Craft & Manufacturing Industry (PCMI) for delivery of a three year programme
which started in August 2017. 'Your Journey To Employment' conference was held at the Public Service Plaza in October 2017; the event was a joint one with the Department of Works and Pensions for customers and partners. Over 100 households attended the conference with positive feedback from both attendees and partner organisations.

*Local Plan*

Our Local Plan has made significant progress over the year with residents invited to comment on draft Local Plan 2036. The major consultation in early 2018 sought views on proposed sites for future schools, employment, community and housing. As part of the preparation of the Local Plan, the council worked with various parties to put together the proposals. This work included design workshops with residents and discussions with Government agencies, infrastructure providers, landowners and developers. Responses to the consultation will be considered prior to the adoption of the Local Plan 2036.

*Environmental sustainability*

2017/18 was the second year of our agreed Energy Strategy. Our strategy provides a framework to deliver energy projects across the borough until 2022. The strategy has three clear aims; improve energy efficiency, increase low carbon energy generation and demonstrate council leadership. During the year work focussed on an electric vehicle infrastructure project, procurement for a private sector partner was run during the year with a decision early in 2018-19 on a preferred partner. Following the selection of a partner the project will be progressed in Havant Borough owned car parks. In addition, Havant is working with Portsmouth City Council to extend their LEAP project to Havant residents. Going forward we have also been looking at alternative fuel sources and solar energy on our buildings.

As a member of the Eastern Coastal Solent Partnership work has continued to improve the local Coastline. During the year £3.3m of funding was secured for next 5 years of Hayling Beach Management Plan and £301,000 of grant secured to undertake outline design stage of Langstone FCERM scheme. By working under a Shared Service Agreement, the costs of running the Partnership and its services are distributed and funded proportionally across each local authority. The Partnership has made substantial savings, whilst providing a higher quality of service and employing more staff. Since 2012 the Partnership as delivered £1.5M in savings for the partners.

## Financial Performance & Capital Summary

### 2017/18 Revenue Outturn

For the 2017/18 financial year, the Council agreed its budget for net revenue spending on General Fund services at £14,491,000. Net revenue spending is financed in part by Government Grant and retained business rates, with the remainder being raised through council tax, use of reserves and interest on external investments. The Council Tax charge for Council services was set at £198.54 for band D properties.

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

| | BUDGET | Actuals to date | | VAR TO BUDGET |
|---|---|---|---|---|
| **SERVICE** | **£000'S** | **£000'S** | | **Fav(-) / Adv** |
| Head of Neighbourhood Support | 168.7 | 251.0 | | 82.3 |
| Head of Planning (H) | 680.1 | 848.8 | | 168.7 |
| Head of Coastal Partnership | 236.0 | 176.5 | | (59.5) |
| Head of Housing | 590.8 | 498.7 | | (92.1) |
| Head of Communications & Community Engagement | 845.7 | 844.1 | | (1.6) |
| Head of Development | 385.0 | 127.8 | | (257.1) |
| Estates | 221.9 | 174.6 | | (47.3) |
| Investment Income & Expenditure | (1,403.1) | (1,265.1) | | 138.0 |
| **OPERATIONS & PLACE SHAPING** | **1,725.1** | **1,656.5** | | **(68.7)** |
| Head of Finance | 992.1 | 1,293.1 | | 300.9 |
| Head of Organisational Development | 937.7 | 992.4 | | 54.7 |
| Head of Communications | 254.8 | 182.3 | | (72.6) |
| Head of Legal | 384.4 | 354.6 | | (29.7) |
| Head of Programmes Redesign & Quality | 2,741.3 | 2,570.9 | | (170.4) |
| Head of Customer Services | 2,714.7 | 2,403.5 | | (311.2) |
| Head of EXEC | 831.7 | 1,387.6 | | 555.8 |
| Corporate budget challenge 2017/18 | (623.6) | - | | 623.6 |
| **GOVERNANCE** | **8,233.2** | **9,184.4** | | **951.1** |
| Head of Commercial Ventures | 255.9 | 110.2 | | (145.7) |
| Head of Environmental Services | 3,817.4 | 4,164.6 | | 347.2 |
| **COMMERCIAL** | **4,073.3** | **4,274.8** | | **201.4** |
| **CONTRIBUTION (favourable) or adverse** | **14,031.7** | **15,115.6** | | **1,083.9** |
| Other Operating Income & Expenditure | 793.0 | 749.6 | | (43.4) |
| Movement in Reserves | (304.0) | (968.1) | | (664.1) |
| **TOTAL MOVEMENT IN RESERVES AND OTHER** | 489.0 | **(218.6)** | | **(707.5)** |
| **TOTAL NET EXPENDITURE** | **14,520.6** | **14,897.0** | | **376.4** |
| Council Tax & BRRS | (11,049.1) | (12,245.2) | | (1,196.1) |
| General Grants | (3,442.3) | (2,815.1) | | 627.2 |
| **FUNDING** | **(14,491.4)** | **(15,060.3)** | | **(568.9)** |
| **(SURPLUS)/ DEFICIT** | **29.2** | **(163.3)** | | **(192.5)** |

# NARRATIVE STATEMENT

*Please note only material variances are analysed out in detail.

| VAR TO BUDGET (Fav) / Adverse | SERVICE | NARRATIVE |
|---|---|---|
| 82.3 | Head of Neighbourhood Support | Adverse variance due to overspend with in salaries budget of £129k arising from delay in implementing planned Environmental Health Team restructure. A further overspend within Supplies and Services of £77k mainly from the purchase of materials. These were partially offset by a saving against budget of £164k on Contract Costs and additional income from Fees and Charges of £17k. |
| 168.7 | Head of Planning | Adverse variance due to Income lower than budget by £72k. This arose as a result of lower CIL income than forecasted of £104k, offset by additional application and other miscellaneous fees of £31k. Employee Costs were also over budget by £77k, but savings were made against Supplies and Services of £24k. |
| (59.5) | Head of Coastal Partnership | Favourable variance due to additional grant income received from the Environmental Agency and DEFRA not included within the council's budget and cost savings against the projects that these grants funded. |
| (92.1) | Head of Housing | £92k favourable variance composed of £47.4k unbudgeted government grant in Housing Strategy, £10k unbudgeted government grant in Homelessness, additional £20k B&B income from Housing Benefits and Repayments of Damage Deposits above budget by £30k offset by increased Temporary Housing Costs of £14k |
| (1.6) | Head of Communications & Community Engagement | In line |
| (257.1) | Head of Development | Favourable variances to budget in Employee Costs £46.7k, Plan and Inspection fees £11.6k, Consultancy costs £131k and lower than planned payment of start-up grants £61.6k. |
| (47.3) | Estates | Savings in Contact Costs, offsetting the overspend against existing establishment £127.2k. Reduction in Rental Income of £41.8k, but additional Fees and Charges of £24k. Increased use of Consultancy for unexpected work required around asset valuations £23.7k . |
| 138.0 | Investment Income & Expenditure | Adverse variance due to reduction in expected investment property income following reclassification of assets |
| 300.9 | Head of Finance | Adverse variance mainly due to year end increase in provision for doubtful debts (£144k), unbudgeted Payroll Contract costs £52k and overspend against Consultancy Costs £85.7k |
| 54.7 | Head of Organisational Development | Adverse variance due to higher than expected employee costs £59.4k offset by savings against Suppliers and Services of £6k |
| (72.6) | Head of Communications | Favourable variance due to cost reductions in Employee Cost £10k, additional Income generation of £6.3k and savings against Supplies and Services of £56.4k mainly around Advertising and Public Notices and Information. |
| (29.7) | Head of Legal | Net Staff Costs saving (after temporary staff costs) due to staff vacancies of £35k, but lower Fees and Charges income generation of £6.1k |

| | | |
|---|---|---|
| (170.4) | Head of Programmes Redesign & Quality | Favourable variance due to lower Contract Costs £510k, but higher than budgeted Staff Costs as a result of £232k and additional Supplies and Services costs. |
| (311.2) | Head of Customer Services | Favourable variance mainly due to higher than expected Housing Benefit grants received £270k and funding from central government to facilitate the three elections during the year. Savings from the Vinci contract termination of £62.7. |
| 555.8 | Head of EXEC | Adverse variance due to the accrual for contract costs. Consultancy fees budget adverse variance of £65k |
| 623.6 | Budget Challenge | Corporate income and efficiency savings targets. These targets have been met by efficiencies and income improvements within the services. |
| (145.7) | Head of Commercial Ventures | Favourable variance due to reduction in costs in respect of CRM Licenses and Maintenance costs £101k. Savings against budget of £36k from Employee Costs and £6.7k from Consultancy Fees. |
| 347.2 | Head of Environmental Services | Adverse variance due to reduction in Rental and Fee income totalling £139k and additional Depreciation charged of £263k on disposal of vehicles. Lower than expected Contract costs resulting in a saving of £83k. |

# NARRATIVE STATEMENT

## Capital Outturn 2017/18

The Capital outturn for 2017/18 was as follows,

| Expenditure | Budget including Brought Forward £000 | Outturn £000 |
|---|---|---|
| **Housing** | | |
| DFG Expenditure | 800 | 653 |
| | **800** | **653** |
| **Operational Land and Buildings** | | |
| Front Lawn Works | 800 | 1,347 |
| Hayling Billy Trail | - | 3 |
| Refurbishment of HBC equipped play areas | 75 | |
| Construct New Allotments | 135 | |
| Emsworth Wall North Street | - | 100 |
| | **1,010** | **1,450** |
| **Investment Properties** | | |
| Development of Phase 1 of the Commercial Premises | **1,000** | **-** |
| **Vehicles and Equipment** | | |
| Replacement of Noise Monitoring Equipment | 22 | - |
| Animal Warden Vehicle | 21 | - |
| Neighbourhood Quality Fleet Replacement | 23 | - |
| | **66** | **-** |
| **Other Capital Expenditure** | | |
| Replacement of processing and application mgt system | 200 | - |
| Replacement DMS solution – Community, Transport, Property | 60 | - |
| Acolaid database replacement – Environmental health work | 58 | - |
| Personalisation | 150 | - |
| Asset Management Maintenance System | 75 | - |
| New Finance System | - | 23 |
| | **543** | **23** |
| **Total Expenditure** | **3,419** | **2,126** |
| **Financed by** | | |
| Increase in Capital Financing Requirement | | 1,347 |
| Capital Receipts | | 126 |
| Grants and Contributions | | 653 |
| Contributions from Earmarked Reserves | | - |
| **Total Financing** | | **2,126** |

# NARRATIVE STATEMENT

**Business Rates Retention Scheme**

The principle behind the scheme is that local authorities retain a share of Business Rates collected from their local businesses. Authorities retain a share of growth in the business base, giving councils incentive to invest in local infrastructure. The government announced the continuation of several Business Rate reliefs throughout 2017/18. The impact of these reliefs was to reduce collectible business rates, and this has been offset by cash grants paid to the Council. The surplus or deficit on business rates will be redistributed between the Government, Havant Borough Council, Hampshire County Council, and Hampshire Fire and Rescue during 2018/19. The budget calculations for 2018/19 take into account this redistribution.

The table below demonstrates how the Council estimated its collectable business rates, how this is split between the participating authorities, the split of the overall 2017/18 surplus, and the impact on the General Fund in 2018/19, compared to actual performance in the year.

| | Budget £'000 | Outturn £'000 |
|---|---|---|
| **Business Rates Yield** | | |
| Base Yield | 35,764 | 34,618 |
| Provision for backdated appeals | - | 183 |
| Cost of Collection | (138) | (138) |
| Adjustment for provision for bad debt | - | (302) |
| Transitional protection payment | (925) | (1,056) |
| **Business Rates Yield** | **34,701** | **33,305** |
| **Distribution** | | |
| Central Government (50%) | 17,351 | 17,351 |
| Hampshire County Council (9%) | 3,123 | 3,123 |
| Hampshire Fire (1%) | 347 | 347 |
| Havant Borough Council (HBC) (40%) | 13,880 | 13,880 |
| **Total Distribution** | **34,701** | **34,701** |
| Collection Fund (Surplus)/Deficit B/Fwd | 753 | 1,643 |
| Reallocation of prior year balance – HBC | (301) | (301) |
| Reallocation of prior year balance – Other | (452) | (452) |
| Collection Fund (Surplus)/Deficit in year | - | 1,396 |
| **Collection Fund (Surplus)/Deficit C/fwd** | **-** | **2,286** |
| | | |
| **Allocation of (Surplus)/Deficit in 2017/18** | | |
| Government Share (50%) | - | 1,143 |
| HBC Share (40%) | - | 914 |
| Hampshire County Council Share (9%) | - | 206 |
| Hampshire Fire (1%) | - | 23 |
| **Total** | **-** | **2,286** |
| **Havant Borough District Council** | | |
| **Retained Business Rates** | **Budget £'000** | **Actual £'000** |
| Non-Domestic Rating income | 13,880 | 13,708 |
| S31 Grant Income | 659 | 1,061 |
| Tariff paid to Central Government | (9,167) | (9,077) |
| Levy/ safety net paid to/by Central Government | (1,123) | (1,048) |
| Payment of prior year's estimated surplus / (deficit) | (301) | (301) |
| **Total 2017/18 business rates income** | **3,948** | **4,343** |

## Medium Term Financial Strategy

The Council agreed its Medium Term Financial Strategy as part of its budget setting process for 2018/19. The summary projections demonstrate the Council's ambitions for maintaining council tax at current levels and generating income.

| **2018/19 Medium Term projections** | | | | | |
|---|---|---|---|---|---|
| | **2018/19** | **2019/20** | **2020/21** | **2021/22** | **2022/23** |
| | **£M** | **£M** | **£M** | **£M** | **£M** |
| Sales - fees and charges | (4.31) | (5.66) | (5.80) | (5.78) | (5.83) |
| Sales - commercial enterprises | (2.39) | (1.05) | (1.12) | (1.19) | (1.26) |
| Income - specific grants | (2.21) | (2.21) | (2.21) | (2.21) | (2.21) |
| Investment Income & Expenditure | (1.40) | (1.40) | (1.40) | (1.40) | (1.40) |
| **Total Service income** | **(10.31)** | **(10.32)** | **(10.53)** | **(10.58)** | **(10.70)** |
| Employees | 8.37 | 9.16 | 9.37 | 9.45 | 9.16 |
| Supplies and services | 5.62 | 5.26 | 5.26 | 5.26 | 5.45 |
| Contract costs | 9.09 | 8.56 | 8.43 | 8.23 | 8.63 |
| Agency/Third party costs (net) | (0.13) | (0.13) | (0.13) | (0.13) | (0.13) |
| Service income & efficiency targets | (0.40) | (0.40) | (0.40) | (0.40) | (0.40) |
| Capital costs | 1.11 | 1.11 | 1.11 | 1.11 | 1.11 |
| **Total Service costs** | **23.66** | **23.56** | **23.64** | **23.52** | **23.82** |
| **Contribution / (surplus) / deficit** | **13.35** | **13.24** | **13.11** | **12.94** | **13.12** |
| Other Operating Income & Expenditure | 0.85 | 0.92 | 1.00 | 1.08 | 1.17 |
| Minimum Revenue Provision | 0.12 | 0.12 | 0.12 | 0.12 | 0.12 |
| Movement on General Fund | | | | | |
| Movement in Reserves to Grants & Contributions Unapplied | 0.97 | 0.96 | 0.96 | 0.96 | 0.96 |
| Movements in Statutory Reserves | (1.11) | (0.98) | (0.98) | (0.98) | (0.98) |
| **Total other costs & mvmt in reserves** | **0.83** | **1.02** | **1.10** | **1.18** | **1.27** |
| **Total net expenditure** | **14.18** | **14.26** | **14.21** | **14.12** | **14.39** |
| Council tax | (8.08) | (8.31) | (8.35) | (8.39) | (8.43) |
| Council Tax prior year Surplus | (0.01) | - | - | - | - |
| Retained business rates | (3.77) | (4.18) | (4.28) | (4.38) | (4.49) |
| Retained Business Rates prior year Deficit | 0.83 | - | - | - | - |
| Revenue Support Grant | (0.29) | - | - | - | - |
| New Homes Bonus | (1.79) | (1.33) | (1.07) | (0.61) | (0.50) |
| Section 31 Grants | (1.08) | (0.67) | (0.68) | (0.70) | (0.72) |
| **Total Grant, Council tax and Business Rates Funding** | **(14.19)** | **(14.49)** | **(14.38)** | **(14.08)** | **(14.14)** |
| **(Surplus) / Deficit** | **(0.01)** | **(0.23)** | **(0.17)** | **0.04** | **0.25** |

# NARRATIVE STATEMENT

**Explanation of accounting statements**

The Statement of Accounts for 2017/18 has been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom.

The purpose of the published Statement of Accounts is to give electors, local taxpayers, Councillors and other interested parties clear information about the Council's finances. The statements inform readers of the cost of services provided by the Council in the year 2017/18, how services were paid for and the Council's assets and liabilities at the year-end date of 31 March 2018.

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

The following key statements are included:

**The Movements in Reserves Statement**

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

**The Expenditure and Funding Analysis Statement**

The Expenditure & Funding Analysis is designed to show how annual expenditure is used and funded from resources, including Government Grants, Council Tax and Business Rates, by local authorities, in comparison with those resources consumed or earned by authorities in accordance with generally accepted accounting practises. It also shows how this expenditure is allocated for decision making purposes between the Council's Directorates and Service Heads. Income and expenditure, accounted for under generally accepted accounting practises is presented more fully in the Comprehensive Income and Expenditure Statement.

**The Comprehensive Income & Expenditure Statement**

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

**The Balance Sheet**

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

**The Cash Flow Statement**

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

**Notes to the Core Financial Statements (including pensions disclosures)**

**The Collection Fund**

This account records all transactions relating to Council Tax and Business Rates.

# STATEMENT OF RESPONSIBILITIES FOR THE STATEMENT OF ACCOUNTS

**The Council's Responsibilities:**

The Council is required to:

- make arrangements for the proper administration of its financial affairs and to ensure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Chief Finance Officer (Section 151 Officer).
- manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets.
- approve the Statement of Accounts.

**Responsibilities of the Section 151 Officer:**

The Section 151 Officer is responsible for the preparation of the Council's Statement of Accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in Great Britain.

In preparing this Statement of Accounts, the Section 151 Officer has selected suitable accounting policies and then applied them consistently, made judgements and estimates that were reasonable and prudent and complied with the Code of Practice on Local Authority Accounting in the United Kingdom.

The Section 151 Officer also*:*

- has kept proper accounting records which were up to date.

- has taken reasonable steps for the prevention and detection of fraud and other irregularities.

I certify that the Statement of Accounts presents a true and fair view of the financial position of the Council as at the 31 March 2018 and its income and expenditure for the year then ended.

**Signed:**

Lydia Morrison
Section 151 Officer

**Date:** 25 July 2018

# STATEMENT OF RESPONSIBILITIES FOR THE STATEMENT OF ACCOUNTS

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

I confirm that the Statement of Accounts have been audited and, in accordance with the Accounts and Audit Regulations (amendment) 2015, I certify that the Audited Statement of Accounts present a true and fair view of the financial position of the Authority and its income and expenditure for the year ended 31 March 2018.

**Signed:**

Lydia Morrison
Section 151 Officer

**Date:** 25 July 2018

**Certificate of approval by the Council:**

I confirm that the Audited Statement of Accounts were approved at the Governance and Audit Committee meeting of Havant Borough Council on 25 July 2018.

**Signed:**

Cllr Richard Kennett
Chairman, Governance, Audit and Finance Board

**Date:** 25 July 2018

# INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF HAVANT BOROUGH COUNCIL

## Opinion

We have audited the financial statements of Havant Borough Council for the year ended 31 March 2018 under the Local Audit and Accountability Act 2014. The financial statements comprise the:

- Authority and Group Movement in Reserves Statement,
- Authority and Group Comprehensive Income and Expenditure Statement,
- Authority and Group Balance Sheet,
- Authority and Group Cash Flow Statement,
- Notes 1 to 42 to the Council Accounts, and the Expenditure and Funding Analysis,
- Collection Fund and the related notes 1 to 3

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

In our opinion the financial statements:

- give a true and fair view of the financial position of Havant Borough Council as at 31 March 2018 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.

## Basis for opinion

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

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

## Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Chief Finance Officer's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Chief Finance Officer has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Authority's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

## Other information

The other information comprises the information included in the Annual Statement of Accounts, other than the financial statements and our auditor's report thereon. The Chief Finance Officer is responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

**Opinion on other matters prescribed by the Local Audit and Accountability Act 2014**

**Arrangements to secure economy, efficiency and effectiveness in the use of resources**

In our opinion, based on the work undertaken in the course of the audit, having regard to the guidance issued by the C&AG in November 2017, we are satisfied that, in all significant respects, Havant Borough Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2018.

**Matters on which we report by exception**

We report to you if:

- in our opinion the annual governance statement is misleading or inconsistent with other information forthcoming from the audit or our knowledge of the Council;
- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014;
- we make written recommendations to the audited body under Section 24 of the Local Audit and Accountability Act 2014;
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014.

We have nothing to report in these respects

**Responsibility of the Chief Finance Officer**

As explained more fully in the Statement of Responsibilities for the Statement of Accounts set out on pages 16 and 17, the Chief Finance Officer is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18, and for being satisfied that they give a true and fair view.

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

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

**Auditor's responsibilities for the audit of the financial statements**

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

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at https://www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

**Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources**

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General (C&AG) in November 2017, as to whether the Council had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2018.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether, in all significant respects, the Council had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the National Audit Office (NAO) requires us to report to you our conclusion relating to proper arrangements.

We report if significant matters have come to our attention which prevent us from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

**Certificate**

We certify that we have completed the audit of the accounts of Havant Borough Council in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice issued by the National Audit Office.

**Use of our report**

This report is made solely to the members of Havant Borough Council, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and for no other purpose, as set out in paragraph

43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Council and the Council's members as a body, for our audit work, for this report, or for the opinions we have formed.

Andrew Brittain (Key Audit Partner)
Ernst & Young LLP (Local Auditor)
Southampton
31 July 2018

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

# MOVEMENT IN RESERVES STATEMENT

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

**Movements in 2017/18:**

| | General Fund Balance £000 | Earmarked General Fund Reserves £000 | Capital Receipts Reserve £000 | Capital Grants and Other Contributions Unapplied £000 | Total Usable Reserves £000 | Unusable Reserves £000 | Total Authority Reserves £000 | Council Share of reserves of Associate £'000 | Total Group Reserves £'000eserves |
|---|---|---|---|---|---|---|---|---|---|
| **Balance at 31 March 2017** | **(7,137)** | **(3,156)** | **(1,313)** | **(4,464)** | **(16,070)** | **(13,687)** | **(29,757)** | **(16)** | **(29,773)** |
| Surplus or (deficit) on the provision of services | (974) | - | - | - | (974) | - | (974) | - | (974) |
| Other Comprehensive Income and Expenditure | - | - | - | - | | (7,354) | (7,354) | - | (7,354) |
| **Total Comprehensive Income and Expenditure** | **(974)** | **-** | **-** | **-** | **(974)** | **(7,354)** | **(8,328)** | **-** | **(8,328)** |
| **Adjustment between group and Authority Accounts - purchase of goods & Services from Associate** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **(25)** | **(25)** |
| Adjustments between accounting basis & funding basis under regulations (Note 8) | 1,540 | - | (124) | (4,223) | (2,807) | 2,807 | - | - | - |
| **Net Increase /(Decrease) before Transfers to Earmarked Reserves** | **566** | **-** | **(124)** | **(4,223)** | **(3,780)** | **(4,547)** | **(8,328)** | **-** | **(8,328)** |
| Transfers to/(from) Earmarked Reserves (Note 9) | (730) | 730 | - | - | - | - | - | - | - |
| **Increase/(Decrease) in 2017/18** | (164) | 730 | (124) | (4,223) | (3,780) | (4,547) | (8,328) | (25) | (8,353) |
| **Balance at 31 March 2018** | **(7,301)** | **(2,426)** | **(1,437)** | **(8,687)** | **(19,851)** | **(18,234)** | **(38,085)** | **(41)** | **(38,126)** |

# MOVEMENT IN RESERVES STATEMENT

**Comparative movements in 2016/17:**

| | General Fund Balance £000 | Earmarked General Fund Reserves £000 | Capital Receipts Reserve £000 | Capital Grants and Other Contributions Unapplied £000 | Total Usable Reserves £000 | Unusable Reserves £000 | Total Authority Reserves £000 | Council Share of reserves of Associate £'000 | Total Group Reserves £'000eserves |
|---|---|---|---|---|---|---|---|---|---|
| **Balance at 31 March 2016** | **(6,248)** | **(3,783)** | **(199)** | **(3,443)** | **(13,673)** | **(15,304)** | **(28,977)** | **-** | **(28,977)** |
| **Movement in reserves during 2016/17** | | | | | | | | | |
| Surplus or (deficit) on the provision of services | (572) | - | - | - | (572) | - | (572) | - | (572) |
| Other Comprehensive Income and Expenditure | - | - | - | - | | (208) | (208) | - | (208) |
| **Total Comprehensive Income and Expenditure** | (572) | - | - | - | (572) | (208) | (780) | - | (780) |
| **Adjustment between group and Authority Accounts - purchase of goods & Services from Associate** | - | - | - | - | - | - | - | (16) | (16) |
| Adjustments between accounting basis & funding basis under regulations (Note 8) | (347) | - | (1,114) | (1,021) | (2,482) | 2,482 | - | - | - |
| **Net Increase /(Decrease) before Transfers to Earmarked Reserves** | (919) | - | (1,114) | (1,021) | (3,054) | 2,274 | (780) | - | (780) |
| Transfers to/(from) Earmarked Reserves (Note 9) | 30 | 627 | - | - | 657 | (657) | - | - | - |
| **Increase/(Decrease) in 2016/17** | (889) | 627 | (1,114) | (1,021) | (2,397) | 1,617 | (780) | (16) | (796) |
| **Balance at 31 March 2017** | **(7,137)** | **(3,156)** | **(1,313)** | **(4,464)** | **(16,070)** | **(13,687)** | **(29,757)** | **(16)** | **(29,773)** |

# EXPENDITURE & FUNDING ANALYSIS

The Expenditure & Funding Analysis is a note to the Financial Statements. However, it is presented here as it provides a link from the figures reported in the Narrative Statement to the Comprehensive Income & Expenditure Statement.

| 2016/17 | | | | 2017/18 | | |
|---|---|---|---|---|---|---|
| **Net Expenditure chargeable to the General Fund** | **Adjustment between the Funding and Accounting basis** | **Net Expenditure in the Comprehensive Income & Expenditure Statement** | | **Net Expenditure chargeable to the General Fund** | **Adjustment between the Funding and Accounting basis** | **Net Expenditure in the Comprehensive Income & Expenditure Statement** |
| **£'000** | **£'000** | **£'000** | | **£'000** | **£'000** | **£'000** |
| | | | **Operations Directorate** | | | |
| 186 | 5 | 191 | Head of Neighbourhood Support | 214 | 656 | **(442)** |
| (390) | 175 | (215) | Head of Planning | 806 | (331) | **1,137** |
| 2,727 | 44 | 2,771 | Head of Customer Services | 2,403 | (88) | **2,491** |
| 100 | 298 | 398 | Head of Coastal Partnership | 161 | 176 | **(15)** |
| 520 | 21 | 541 | Head of Housing | 498 | (68) | **566** |
| **3,143** | **543** | **3,686** | **Total Operations Directorate** | **4,082** | **345** | **3,737** |
| | | | **Strategy & Governance Directorate** | | | |
| 1,099 | (27) | 1,072 | Head of Finance & Property | 1,110 | (275) | **1,385** |
| 833 | 34 | 867 | Head of Organisational Development | 990 | (78) | **1,068** |
| 1,416 | 196 | 1,612 | Head of Communications & Community Engagement | 743 | (664) | **1,407** |
| 213 | 8 | 221 | Head of Legal | 355 | (40) | **395** |
| 2,794 | 48 | 2,842 | Head of Programmes Redesign & Quality | 3,148 | (337) | **3,485** |
| 584 | 22 | 606 | Executive and 5c's | 1,411 | (40) | **1,451** |
| **6,939** | **281** | **7,220** | **Total Strategy & Governance Directorate** | **7,757** | **(1,434)** | **9,191** |
| | | | **Commercial Directorate** | | | |
| 94 | (9) | 85 | Head of Commercial Ventures | 110 | 16 | **94** |
| 3,822 | 230 | 4,052 | Head of Environmental Services | 3,682 | (226) | **3,908** |
| 231 | 22 | 253 | Head of Development | 129 | (51) | **180** |
| 348 | (52) | 296 | Building Maintenance and Facilities | 1,310 | (139) | **1,449** |
| **4,495** | **191** | **4,686** | **Total Commercial Directorate** | **5,231** | **(400)** | **5,631** |
| **14,577** | **1,015** | **15,592** | **Total Service Manager Spend** | **17,070** | **(1,489)** | **18,559** |
| (16,518) | 147 | (16,371) | Other Operating Income & Expenditure | (16,504) | 3,029 | **(19,533)** |
| **(1,941)** | **1,162** | **(779)** | **Total net expenditure** | **566** | **1,540** | **(974)** |

# Expenditure & Funding Analysis

The Expenditure & Funding Analysis is designed to show how annual expenditure is used and funded from resources, including Government Grants, Council Tax and Business Rates, by local authorities, in comparison with those resources consumed or earned by authorities in accordance with generally accepted accounting practises. It also shows how this expenditure is allocated for decision making purposes between the Council's Directorates and Service Heads. Income and expenditure, accounted for under generally accepted accounting practises is presented more fully in the Comprehensive Income and Expenditure Statement.

The starting point for the production of the Expenditure and Funding Analysis is the internal Management reporting on outturn, as presented to the Council's management team and Cabinet. Fuller disclosure of this report, including explanations of variances to budget, is provided in the Narrative Statement at the start of this document. The table below reconciles the Net expenditure to the reported surplus and the balance on the General Fund. A reconciliation of adjustments between the internally reported outturn and the statutory net expenditure shown in the Comprehensive Income and Expenditure Statement is provided on page 45.

Reconciliation of Net expenditure chargeable to the General Fund to the reported surplus for 2017/18:

| **2016/17 £'000** | | **2017/18 £'000** |
|---|---|---|
| **(1,941)** | **Net Expenditure chargeable to the General Fund** | **566** |
| 657 | Movement in Usable & Unusable reserves | (730) |
| **(1,284)** | **Closing General Fund balance** | **(166)** |

Reconciliation of the reported surplus / deficit (-) to the General Fund balance

| **2016/17 £'000** | | **2017/18 £'000** |
|---|---|---|
| 6,248 | Opening General Fund balance | 7,137 |
| 1,284 | Surplus reported to Management | 163 |
| (395) | Budgeted draw on the General Fund | - |
| - | Transfers to other reserves | - |
| **7,137** | **Surplus / Deficit (-) reported to Management** | **7,300** |

# COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

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

| 2016/17 | | | | | 2017/18 | | | |
|---|---|---|---|---|---|---|---|---|
| Gross Expenditure £'000 | Gross Income £'000 | Net Expenditure £'000 | Group Net Expenditure £'000 | | Gross Expenditure £'000 | Gross Income £'000 | Net Expenditure £'000 | Group Net Expenditure £'000 |
| | | | | **Operations Directorate** | | | | |
| 3,288 | (3,097) | **191** | **191** | Head of Neighbourhood Support | 3,259 | (3,701) | **(442)** | **(442)** |
| 1,939 | (2,154) | **(215)** | **(215)** | Head of Planning | 2,237 | (1,100) | **1,137** | **1,137** |
| 36,595 | (33,824) | **2,771** | **2,771** | Head of Customer Services | 35,301 | (32,810) | **2,491** | **2,491** |
| 3,236 | (2,838) | **398** | **398** | Head of Coastal Partnership | 1,080 | (1,095) | **(15)** | **(15)** |
| 685 | (144) | **541** | **541** | Head of Housing | 779 | (213) | **566** | **566** |
| **45,743** | **(42,057)** | **3,686** | **3,686** | **Total Operations Directorate** | **42,656** | **(38,919)** | **3,737** | **3,737** |
| | | | | **Strategy & Governance Directorate** | | | | |
| 1,099 | (27) | **1,072** | **1,072** | Head of Finance & Property | 1,394 | (9) | **1,385** | **1,385** |
| 907 | (40) | **867** | **867** | Head of Organisational Development | 1,098 | (30) | **1,068** | **1,068** |
| 1,664 | (52) | **1,612** | **1,612** | Head of Communications & Community Engagement | 1,685 | (278) | **1,407** | **1,407** |
| 254 | (33) | **221** | **221** | Head of Legal | 451 | (56) | **395** | **395** |
| 3,125 | (283) | **2,842** | **2,842** | Head of Programmes Redesign & Quality | 3,740 | (255) | **3,485** | **3,485** |
| 606 | - | **606** | **606** | Executive and 5 Councils | 1,636 | (185) | **1,451** | **1,451** |
| **7,655** | **(435)** | **7,220** | **7,220** | **Total Strategy & Governance Directorate** | **10,004** | **(813)** | **9,191** | **9,191** |
| | | | | **Commercial Directorate** | | | | |
| 92 | (7) | **85** | **85** | Head of Commercial Ventures | 97 | (3) | **94** | **94** |
| 6,516 | (2,464) | **4,052** | **4,052** | Head of Environmental Services | 4,470 | (562) | **3,908** | **3,908** |
| 437 | (185) | **252** | **252** | Head of Development | 316 | (136) | **180** | **180** |
| 793 | (497) | **296** | **296** | Building Maintenance and Facilities | 2,245 | (796) | **1,449** | **1,449** |
| **7,838** | **(3,153)** | **4,685** | **4,685** | **Total Commercial Directorate** | **7,128** | **(1,497)** | **5,631** | **5,631** |
| **61,236** | **(45,645)** | **15,591** | **15,591** | **Total Cost of Services** | **59,788** | **(41,229)** | **18,559** | **18,559** |
| - | (529) | **(529)** | **(529)** | Other Operating Expenditure (Note 10) | - | - | **-** | **-** |
| 4,550 | (5,268) | **(718)** | **(718)** | Financing & Investment Income & Expenditure (Note 11) | 1,381 | (2,444) | **(1,063)** | **(1,063)** |
| - | (14,916) | **(14,916)** | **(14,916)** | Taxation and Non-Specific Grant Income (Note 12) | - | (18,470) | **(18,470)** | **(18,470)** |
| - | - | **-** | **(19)** | Share of Surplus (-) / Deficit of services by Associate | - | - | **-** | **(33)** |
| - | - | **-** | **3** | Tax expenses of Associate | - | - | **-** | **8** |
| **65,786** | **(66,358)** | **(572)** | **(588)** | **Surplus (-) / Deficit on Provision of Services** | **61,169** | **(62,143)** | **(974)** | **(999)** |
| | | **(5,348)** | **(5,348)** | Surplus (-) / Deficit on revaluation of Property, Plant and Equipment Assets | | | **(7,564)** | **(7,564)** |
| | | **5,140** | **5,140** | Re-measurement of the net defined benefit Liability/Asset | | | **210** | **210** |
| | | **(208)** | **(208)** | **Other Comprehensive Income & Expenditure** | | | **(7,354)** | **(7,354)** |
| | | **(780)** | **(796)** | **Total Comprehensive Income & Expenditure** | | | **(8,328)** | **(8,353)** |

# BALANCE SHEET

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

| Authority 31 March 2017 £'000 | Group 31 March 2017 £'000 | | Authority 31 March 2018 £'000 | Group 31 March 2018 £'000 |
|---|---|---|---|---|
| 49,939 | 49,939 | Property, Plant and Equipment (Note 13) | 56,445 | 56,445 |
| - | - | Assets Under Construction | - | - |
| 21,737 | 21,737 | Investment Property (Note 14) | 22,476 | 22,476 |
| 231 | 231 | Intangible Fixed Assets (Note 15) | 226 | 226 |
| - | 16 | Investment in Associate (Note 32) | - | 51 |
| 1,131 | 1,131 | Long-Term Debtors (Notes 16 and 18) | 472 | 472 |
| **73,038** | **73,054** | **Total Long-Term Assets** | **79,619** | **79,670** |
| - | - | Inventories (Note 17) | - | - |
| 3,953 | 3,953 | Short Term Debtors (Note 18) | 7,845 | 7,845 |
| 17,200 | 17,200 | Cash & Cash Equivalents (Note 19) | 18,455 | 18,455 |
| **21,153** | **21,153** | **Total Current Assets** | **26,300** | **26,300** |
| (870) | (870) | Bank Overdraft (Note 19) | (846) | (846) |
| (86) | (86) | Short Term Borrowing (Note 16) | (90) | (90) |
| (6,975) | (6,975) | Short Term Creditors (Note 20) | (8,737) | (8,737) |
| (76) | (76) | Short Term Provisions (Note 21) | (66) | (66) |
| **(8,007)** | **(8,007)** | **Total Current Liabilities** | **(9,739)** | **(9,739)** |
| (248) | (248) | Long Term Finance Lease (Note 20 and 34) | (248) | (248) |
| (825) | (825) | Long Term Provisions (Note 21) | (730) | (730) |
| (3,626) | (3,626) | Long Term Borrowing (Note 16) | (3,538) | (3,538) |
| (48,230) | (48,230) | Liability related to defined benefit pension scheme (Note 37) | (50,069) | (50,069) |
| (3,498) | (3,498) | Capital Grants and Contributions Received in Advance | (3,509) | (3,509) |
| **(56,427)** | **(56,427)** | **Total Long-Term Liabilities** | **(58,094)** | **(58,094)** |
| **29,757** | **29,773** | **NET ASSETS** | **38,086** | **38,137** |
| 16,070 | 16,070 | Usable Reserves (Note 22) | 19,853 | 19,853 |
| 13,687 | 13,687 | Unusable Reserves (Note 23) | 18,233 | 18,233 |
| - | 16 | Share of Reserves of Associate (Note 32) | - | 51 |
| **29,757** | **29,773** | **TOTAL RESERVES** | **38,086** | **38,137** |

# BALANCE SHEET

I certify that this Statement of Accounts provides a true and fair view of the financial position of the Authority as at 31 March 2018 and its Comprehensive Income and Expenditure Statement for the year then ended.

Signed Dated

# CASH FLOW STATEMENT

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

| | Note | **2016/17 £000** | **2017/18 £000** |
|---|---|---|---|
| Net surplus or (deficit) on the provision of services | | 588 | **974** |
| Adjustments to net surplus or deficit on the provision of services for non-cash movements | 24 | 1,877 | **1,890** |
| Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities | 24 | 230 | **(5,155)** |
| **Net cash flows in/(out) from Operating Activities** | | **2,695** | **(2,290)** |
| | | | |
| Investing Activities | 25 | 716 | **3,654** |
| Financing Activities | 26 | (83) | **(84)** |
| **Net increase in cash and cash equivalents** | | **3,328** | **1,279** |
| | | | |
| Cash and cash equivalents at the beginning of the reporting period | | 13,002 | **16,330** |
| **Cash and cash equivalents at the end of the reporting period** | 19 | **16,330** | **17,609** |

# NOTES TO THE CORE FINANCIAL STATEMENTS

## 1. Accounting Policies

### i. General Principles

The Statement of Accounts summarises the Authority’s transactions for the 2017/18 financial year and its position at the year-end of 31 March 2018. The Authority is required to prepare an annual Statement of Accounts by the Accounts and Audit Regulations 2003, as amended in 2015, which require it to be prepared in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 and the Service Reporting Code of Practice 2016/17, supported by International Financial Reporting Standards (IFRS) and statutory guidance issued under section 12 of the 2003 Act.

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

### ii. Accruals of Income and Expenditure

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

- Revenue from the sale of goods is recognised when the Authority transfers the significant risks and rewards of ownership to the purchaser and it is probable that economic benefits or service potential associated with the transaction will flow to the Authority.
- Revenue from the provision of services is recognised when the Authority can measure reliably the percentage of completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to the Authority.
- Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption, they are carried as inventories on the Balance Sheet.
- Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made.
- Interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure based on the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.
- Where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.

### iii. Cash and Cash Equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are investments that mature in three months from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

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

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

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

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

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

Services and support services are debited with the following amounts to record the cost of holding fixed assets during the year:

- depreciation attributable to the assets used by the relevant service
- revaluation and impairment losses on assets used by the service where there is no accumulated gain in the Revaluation Reserve against which the losses can be written off
- amortisation of intangible fixed assets attributable to the service.

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

**vi. Employee Benefits**

**Benefits Payable During Employment**

Short-term employee benefits are those due to be settled within 12 months of the year-end. They include such benefits as wages and salaries, paid annual leave and paid sick leave, bonuses and non-monetary benefits for current employees and are recognised as an expense for services in the year in which employees render service to the Authority. An accrual is estimated for the cost of holiday entitlements earned by employees but not taken before the year-end which employees can carry forward into the next financial year. The accrual is charged to Surplus or Deficit on the Provision of Services, but then reversed out through the Movement in Reserves Statement so that holiday benefits are charged to revenue in the financial year in which the holiday absence occurs.

**Termination Benefits**

Termination benefits are amounts payable as a result of a decision by the Authority to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy and are charged on an accruals basis to the relevant service line in the Comprehensive Income and Expenditure Statement when the Authority is demonstrably committed to the termination of the employment of an officer or group of officers or making an offer to encourage voluntary redundancy. Where termination benefits involve the enhancement of pensions, statutory provisions require the General Fund balance to be charged with the amount payable by the Authority to the pension fund in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, appropriations are required to and from the Pensions Reserve to remove the notional debits and credits for pension enhancement termination benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end.

**Post-Employment Benefits**

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

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

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

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

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

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

- current service cost – the increase in liabilities as a result of years of service earned this year – allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked
- past service cost – the increase or decrease in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years – debited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non-Distributed Costs
- interest cost – the expected increase in the present value of liabilities during the year as they move one year closer to being paid – debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement
- expected return on assets – the annual investment return on the fund assets attributable to the Authority, based on an average of the expected long-term return – credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement
- gains or losses on settlements and curtailments – the result of actions to relieve the Authority of liabilities or events that reduce the expected future service or accrual of benefits of employees – debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non-Distributed Costs
- actuarial gains and losses – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – debited to the Pensions Reserve
- contributions paid to the Hampshire County Council pension fund – cash paid as employer's contributions to the pension fund in settlement of liabilities; not accounted for as an expense.

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

**Discretionary Benefits**

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

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

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

- those that provide evidence of conditions that existed at the end of the reporting period – the Statement of Accounts is adjusted to reflect such events
- those that are indicative of conditions that arose after the reporting period – the Statement of Accounts is not adjusted to reflect such events, but where a category of events would have a material effect, disclosure is made in the notes of the nature of the events and their estimated financial effect.

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

**viii. Financial Instruments**

**Financial Liabilities**

Financial liabilities are recognised on the Balance Sheet when the Authority becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value and are carried at their amortised cost. Annual charges to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. The effective interest rate is the rate that exactly discounts estimated future cash payments over the life of the instrument to the amount at which it was originally recognised.

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

**Financial Assets**

Financial assets are classified into two types:

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

**Loans and Receivables**

Loans and receivables are recognised on the Balance Sheet when the Authority becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value. They are subsequently measured at their amortised cost. Annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For most of the loans that the Authority has made, this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the Comprehensive Income and Expenditure Statement is the amount receivable for the year in the loan agreement.

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

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

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

**ix. Government Grants and Contributions**

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

- the Authority will comply with the conditions attached to the payments, and
- the grants or contributions will be received.

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

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

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

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

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

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

**x. Heritage Assets**

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

**xi. Intangible Assets**

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

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

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

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

**xii. Inventories**

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

**xiii. Investment Property**

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

Investment properties are measured initially at cost and subsequently at fair value, based on the amount at which the asset could be exchanged between knowledgeable parties at arm's-length. Properties are not depreciated but are revalued annually according to market conditions at the year-end. Gains and losses on revaluation are posted to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The same treatment is applied to gains and losses on disposal.

Rentals received in relation to investment properties are credited to the Financing and Investment Income line and result in a gain for the General Fund Balance. However, revaluation and disposal gains and losses are not permitted by statutory arrangements to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Receipts Reserve.

### xiv. Interests in Companies and Other Entities

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

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

Consideration has been given to the relationship with all potential entities and the Council's relationship with Norse South East has been assessed as an Associate. Fuller disclosures have been made in the interests in other entities note to the Core Financial Statements

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

### xv. Leases

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

Where a lease covers both land and buildings, the land and buildings elements are considered separately for classification.

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

**The Authority as Lessee**

**Finance Leases**

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

Lease payments are apportioned between:

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

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

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

**Operating Leases**

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

**The Authority as Lessor**

**Finance Leases**

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

Lease rentals receivable are apportioned between:

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

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

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

**Operating Leases**

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

**xvi. Overheads and Support Services**

The costs of overheads and support services are reported under the relevant Service Head responsibility and not charged to front line services for the purposes of the Statutory Accounts.

Overhead apportionment is applied for statutory government reporting and where this is the case the total absorption costing principle is used – the full cost of overheads and support services is shared between users in proportion to the benefits received, with the exception of:

Non-Distributed Costs – the cost of discretionary benefits awarded to employees retiring early and impairment losses chargeable on Assets Held for Sale. These two cost categories are accounted for as separate headings in the Comprehensive Income and Expenditure Statement, as part of Cost of Services.

**xvii. Property, Plant and Equipment**

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

**Recognition**

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

**Measurement**

Assets are initially measured at cost, comprising:

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

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

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

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

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

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

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

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

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

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

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

**Impairment**

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

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

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

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

**Depreciation**

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

Depreciation is calculated on the following bases:

- dwellings and other buildings – straight-line allocation over the useful life of the property as estimated by the valuer
- vehicles, plant, furniture and equipment – straight line allocation over the assessed useful life of the asset concerned (life between 3 and 20 years) as advised by a suitably qualified officer
- infrastructure – straight-line allocation over assessed useful life of the type of asset (life between 10 and 50 years) as advised by a suitably qualified officer

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

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

**Disposals and Non-Current Assets Held for Sale**

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

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

Assets that are to be abandoned or scrapped are not reclassified as Assets Held for Sale.

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

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

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

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

**Provisions**

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

Provisions are charged as an expense to the appropriate service line in the Comprehensive Income and Expenditure Statement in the year that the authority becomes aware of the obligation, and are measured at the best estimate at the balance sheet date of the expenditure required to settle the obligation, considering relevant risks and uncertainties.

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

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

**Contingent Liabilities**

A contingent liability arises where an event has taken place that gives the authority a possible obligation whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the authority. Contingent liabilities also arise in circumstances where a provision would otherwise be made but either it is not probable that an outflow of resources will be required or the amount of the obligation cannot be measured reliably.

Contingent liabilities are not recognised in the Balance Sheet but disclosed in a note to the accounts.

**Contingent Assets**

A contingent asset arises where an event has taken place that gives the authority a possible asset whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the authority.

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

**xix. Reserves**

The Authority sets aside specific amounts as reserves for future policy purposes or to cover contingencies. Reserves are created by appropriating amounts out of the General Fund Balance in the Movement in Reserves Statement. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service in that year to score against the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement. The reserve is then appropriated back into the General Fund Balance in the Movement in Reserves Statement so that there is no net charge against council tax for the expenditure. Certain reserves are kept to manage the accounting processes for non-current assets, financial instruments, retirement and employee benefits and do not represent usable resources for the Authority – these reserves are explained in Note 23.

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

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

**xxi. VAT**

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

**xxii. Exceptional Items**

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

### xxiii. Council Tax and Non-Domestic Rates (England)

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

**Accounting for Council Tax and NDR**

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

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

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

Paragraph 3.3.2.13 of the 2017/18 Code requires changes in accounting policy to be applied retrospectively unless alternative transitional arrangements are specified in the Code. Paragraph 3.3.4.3 requires an authority to disclose information relating to the impact of an accounting change that will be required by a new standard that has been issued but not yet adopted by the Code for the relevant financial year.

The standards that may be relevant for additional disclosures that will be required in the 2017/18 and 2018/19 financial statements in respect of accounting changes that are introduced in the 2018/19 Code (i.e. that are relevant to the requirements of paragraph 3.3.4.3) are:

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

If any of the above amendments are expected to have a material impact on information in the financial statements, authorities should refer to Appendix C in the 2018/19 Code in relation to their own disclosures regarding the amendments to the above mentioned standards.

The transitional reporting requirements for IFRS 9 and IFRS 15 have been adopted such that the preceding year is not restated. Appendix C in the Code confirms that there is no requirement to provide financial information relating to the impact of IFRS 9 for the 2017/18 year in the 2017/18 financial statements. Note, however, paragraph D53 of Module 3 of the Code Guidance Notes provides guidance on reporting requirements for the application of paragraph C2.2 e) i) of the 2018/19 Code and 30 and 31 of IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* i.e. the need to report known or reasonably estimable information relevant to assessing the possible impact that application of the new IFRS will have on the authority's financial statements in the period of initial application.

CIPFA would also note that there are substantial transitional arrangements for IFRS 9 and IFRS 15 and these have been included in Chapter 7 (Financial Instruments) and Section 2.7 (Revenue from Contracts with Service Recipients) in the 2018/19 Code.

IFRS 9 Financial Instruments has been implemented in the 2018/19 CIPFA Accounting Code of Practice. Its introduction will see the classifications of financial assets change to Amortised Cost, Fair Value through Comprehensive Income and Fair Value through Profit and Loss, from the previous categories of Loans and Receivables, Available for Sale and Fair Value through Profit and Loss. The second main change will be the introduction of an expected credit loss model for particular asset types, rather than an impairment of the asset resulting from a specific incident.

There is current uncertainty on the impact of IFRS9 and the resulting accounting transactions, this is likely to be informed by a potential statutory override. We plan to classify the council's financial instruments as fair value through profit or loss, or as amortised cost. This is to maintain consistency of previous treatment of financial instruments but cannot currently assess the impact on the authority's financial statements.

IFRS 15 Revenue from Contracts with Customers sets out the requirements for recognising revenue that apply to contracts with customers, except for those covered by standards on leases, insurance contracts and financial instruments.  The Council does not have any material revenue streams within the scope of the new standard.

The other narrow scope amendments and IFRIC included in the consultation on the 2018/19 Code listed below:

- IAS 40 *Investment Property*: Transfers of Investment Property
- *Annual Improvements to IFRS Standards 2014-2016 Cycle*, and
- IFRIC 22 *Foreign Currency Transactions and Advance Consideration*

Were not adopted by the EU in time for inclusion in the 2018/19 Code and therefore they have been rolled forward into the development programme for the 2019/20 Code.

## 3. Critical Judgements in applying accounting policies

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

**Future funding for local government –** Consultation is underway on changes to the Business Rates Retention scheme, which will ultimately replace existing government grants, creating uncertainty over future levels of funding. However, the Authority has determined that this uncertainty is not sufficient to provide an indication that the assets of the Authority might be impaired as a result of a need to close facilities and reduce levels of service provision.

**Asset classifications** – the Council has made judgements on whether assets are classified as Investment Property or Property, Plant and Equipment. These judgements are based on the main reason that the council is holding the asset. If the asset is used in the delivery of services or is occupied by third parties who are subsidised by the council they are deemed to be Property, Plant and Equipment assets. If there is no subsidy and/or full market rent is being charged this would indicate that the asset is an Investment Property. The classification determines the valuation method to be used.

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

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

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

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

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

The Statement of Accounts contains estimated figures that are based on assumptions made by the Authority about the future or regarding other uncertainties. Estimates are made considering historical experience, current trends and other relevant factors. However, due to this uncertainty, there is a risk that actual results could vary from the assumptions made. The items in the authority's balance sheet at 31 March 2018 for which there is a significant risk of material adjustment in the forthcoming year are as follows.

| Item | Uncertainties | Effect if results differ from assumptions |
|---|---|---|
| Pension Liability | Estimation of the net liability to pay pensions depends on several complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns from pension fund assets. A firm of actuaries is engaged by the pension fund administrator to provide expert advice about the assumptions to be applied. | Further information on the impact of changes to assumptions can be found at note 37. |
| Property, Plant and Equipment | When calculating the fair value of assets, assumptions are made around useful lives, level of repairs, and the impact of the current economic climate. Changes in these assumptions may result in a material change to the depreciation charges applied. In the current economic climate, it is unlikely that the level of repairs and maintenance can be sustained and this would influence depreciation charges. | If the useful life of assets is reduced, depreciation increases and the carrying amount of the asset falls. |
| Provisions | At 31 March 2018, the authority had a balance of general fund sundry debtors of £0.94m (2016/17 £0.89m). and of overpaid housing benefits of £2.47m (£2.14m in 2016/17). The Authority has made allowances for doubtful debt on a sliding scale dependent on the age of debt. | If collection rates were to deteriorate or improve, an adjustment would be required to the bad debt provision. An increase or decrease to the bad debt provision of 5% equates to £0.11m (£0.93m 2016/17) |
| Business Rates appeal provision | The introduction of the Business rates retention scheme in April 2013 means that the Council has assumed some of the liability for refunding business ratepayers who successfully appeal against the rateable value of their properties. The estimate is based on the latest list of outstanding rating list proposals provided by the Valuation Agency, and considers changes to comparable properties, historic trends and the likelihood that a number of appeals will be unsuccessful. | The Council has provided £1.48m for appeals within the Collection Fund (2016/17 £1.66m), of which the Authority's share is £0.59m (2016/17 £0.67m). A 5% change in provision would require an adjustment of £29,600 (2016/17 £33,250) |

## 5. Exceptional items

There are no exceptional items in 2017/18.

## 6. Material Items of Income and Expense

The council incurs significant expenditure through its delivery of services to the council tax payer and receives significant income from a number of sources to fund this. For example, the council incurs a significant proportion of its spend on benefit payments, which is funded predominantly by government grants. This income and expenditure is reported in the Comprehensive Income and Expenditure Statement and is supported by notes within this section.

The council does consider that there were material items of expense that weren't incurred and/or received in the normal day to day provision of the services. These material items were;
Costs relating to the transfer of Information and computer services to the provider £752k

## 7. Notes to the Expenditure and funding analysis

The Expenditure and Funding Analysis provides financial information on each of the Council's reporting segments. However, adjustments are made to the reported position to comply with statutory accounting requirements. A reconciliation of the adjustments made is provided below.

| 2016/17 | | 2017/18 | | | |
|---|---|---|---|---|---|
| Total Adjustments | | Adjustments for Capital Purposes | Net Change for the Pensions Adjustments | Other Differences | Total Adjustments |
| £'000 | | £'000 | £'000 | £'000 | £'000 |
| | **Operations Directorate** | | | | |
| 4 | Head of Neighbourhood Support | 805 | (149) | - | 656 |
| 175 | Head of Planning | (70) | (261) | - | (331) |
| 44 | Head of Customer Services | - | (88) | - | (88) |
| 298 | Head of Coastal Partnership | (16) | 192 | - | 176 |
| 21 | Head of Housing | - | (68) | - | (68) |
| **542** | **Total Operations Directorate** | **719** | **(374)** | **-** | **345** |
| | **Strategy & Governance Directorate** | | | | |
| (27) | Head of Finance & Property | (73) | (226) | 24 | (275) |
| 34 | Head of Organisational Development | (3) | (76) | - | (78) |
| 196 | Head of Communications & Community Engagement | (541) | (123) | - | (664) |
| 8 | Head of Legal | - | (40) | - | (40) |
| 48 | Head of Programmes Redesign & Quality | (176) | (161) | - | (337) |
| 22 | Executive and 5c's | - | (40) | - | (40) |
| **281** | **Total Strategy & Governance Directorate** | **(793)** | **(666)** | **24** | **(1,434)** |
| | **Commercial Directorate** | - | - | - | |
| (9) | Head of Commercial Ventures | - | 16 | - | 16 |
| 230 | Head of Environmental Services | (226) | - | - | (226) |
| 22 | Head of Development | (15) | (35) | - | (51) |
| (52) | Building Maintenance and Facilities | (63) | (76) | - | (139) |
| **191** | **Total Commercial Directorate** | **(305)** | **(95)** | **-** | **(400)** |
| **1,014** | **Total Service Manager Spend** | **(379)** | **(1,135)** | **24** | **(1,489)** |
| 148 | Other Operating Income & Expenditure | 3,707 | (415) | (263) | 3,029 |
| **1,162** | **Total net expenditure** | **3,328** | **(1,550)** | **(238)** | **1,540** |

**Adjustments for Capital Purposes**

- For Services this column adds in depreciation, impairment and revaluations gains and losses.
- Other operating expenditure – adjusts for capital disposals with a transfer of income on disposal of assets and the amounts written off for those assets.
- Financing and investment income and expenditure – the statutory charges for capital financing i.e. Minimum Revenue Provision and other revenue contributions are deducted from other income and expenditure as these are not chargeable under generally accepted accounting practices.
- Taxation and non-specific grant income and expenditure – capital grants are adjusted for income not chargeable under generally accepted accounting practices. Revenue grants are adjusted from those receivable in the year to those receivable without conditions or for which conditions were satisfied throughout the year. The Taxation and Non-Specific Grant Income and Expenditure line is credited with capital grants receivable in the year without conditions or for which conditions were satisfied in the year

**Net change for the Pensions Adjustments**

- Net change for the removal of pension contributions and the addition of IAS 19 Employee Benefits pension related expenditure and income:
- For services this represents the removal of the employer pension contributions made by the authority as allowed by statute and the replacement with current service costs and past service costs.
- For Financing and investment income and expenditure –the net interest on the defined benefit liability is charged to the CIES.

**Other Differences**

- Other differences between amounts debited/credited to the Comprehensive Income and Expenditure Statement and amounts payable/receivable to be recognised under statute:
- For services this represents the change in the accumulated absences reserve attributable to each service.
- For Financing and investment income and expenditure the other differences column recognises adjustments to the General Fund for the timing differences for premiums and discounts.
- The charge under Taxation and non-specific grant income and expenditure represents the difference between what is chargeable under statutory regulations for council tax and NDR that was projected to be received at the start of the year and the income recognised under generally accepted accounting practices in the Code. This is a timing difference as any difference will be brought forward in future Surpluses or Deficits on the Collection Fund.

The Authority's income and expenditure can be analysed as follows:

| **Expenditure / Income type** | **2016/17 £'000** | **2017/18 £'000** |
|---|---|---|
| Employee benefits and other staff costs | 10,755 | 9,595 |
| Direct Expenditure | 49,546 | 47,841 |
| Depreciation, Amortisation and Impairment | 1,099 | 2,410 |
| Interest payments | 4,387 | 1,323 |
| Gain (-) / loss on disposal of assets | (529) | - |
| **Total Expenditure** | **65,258** | **61,169** |
| Fees, Charges and Other service income | (45,645) | (40,773) |
| Interest & Investment income | (5,268) | (58) |
| Income from Council Tax and Business Rates | (10,700) | (12,245) |
| Government Grants & Contributions | (4,216) | (9,067) |
| **Total Income** | **(65,829)** | **(62,143)** |
| **Surplus on the Provision of Services** | **(571)** | **(974)** |

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

This note details the adjustments that are made to the total comprehensive income and expenditure recognised by the authority in the year in accordance with proper accounting practice to arrive at the resources that are specified by statutory provisions as being available to the authority to meet future capital and revenue expenditure. The following sets out a description of the reserves that the adjustments are made against.

**General Fund Balance**

The General Fund is the statutory fund into which all the receipts of an authority are required to paid and out of which all liabilities of the authority are to be met, except to the extent that statutory rules might provide otherwise. These rules can also specify the financial year in which liabilities and payments should impact on the General Fund Balance, which is not necessarily in accordance with proper accounting practice. The General Fund Balance therefore summarises the resources that the council is statutorily empowered to spend on its services or on capital investment (or the deficit of resources that the council is required to recover) at the end of the financial year.

**Capital Receipts Reserve**

The Capital Receipts Reserve holds the proceeds from the disposal of land or other assets, which are restricted by statute from being used other than to fund new capital expenditure or to be set aside to finance historical capital expenditure. The balance on the reserve shows the resources that have yet to be applied for these purposes at the year-end.

**Capital Grants Unapplied**

The Capital Grants Unapplied Account (Reserve) holds the grants and contributions received towards capital projects for which the council has met the conditions that would otherwise require repayment of the monies but which have yet to be applied to meet expenditure. The balance is restricted by grant terms as to the capital expenditure against which it can be applied and/or the financial year in which this can take place.

| **2017/18** | **General Fund £'000** | **Capital Grants Unapplied £'000** | **Usable Capital Receipts £'000** |
|---|---|---|---|
| **Adjustments to the Revenue Resources** | | | |
| Pensions Costs | (1,549) | | |
| Council Tax and NDR | (263) | | |
| Holiday Pay | 24 | | |
| Reversal of entries included in the Surplus or Deficit on the Provision of Services in relation to capital expenditure | 2,428 | (4,905) | |
| **Total Adjustments to Revenue Resources** | **640** | **(4,905)** | **-** |
| **Adjustments between Revenue and Capital Resources** | | | |
| Transfer of non-current asset sale proceeds from revenue to the Capital Receipts Reserve | 250 | | (250) |
| Statutory provision for the repayment of debt | 650 | | |
| **Total Adjustments between Revenue and Capital Resources** | **900** | **-** | **(250)** |
| **Adjustments to Capital Resources** | | | |
| Use of the Capital Receipts Reserve to finance capital expenditure | | | 126 |
| Application of capital grants to finance capital expenditure | | 682 | |
| **Total Adjustments to Capital Resources** | **-** | **682** | **126** |
| **Total Adjustments** | **1,540** | **(4,223)** | **(124)** |

# NOTES TO THE CORE FINANCIAL STATEMENTS

The comparative adjustments made between accounting basis and funding basis in 2016/17 are as follows:

| 2016/17 | General Fund £'000 | Capital Grants £'000 | Usable Capital £'000 |
|---|---|---|---|
| **Adjustments to the Revenue Resources** | | | |
| Pensions Costs | (1,270) | | |
| Council Tax and NDR | (797) | | |
| Holiday Pay | - | | |
| Reversal of entries included in the Surplus or Deficit on the Provision of Services in relation to capital expenditure | (382) | (1,021) | |
| **Total Adjustments to Revenue Resources** | **(2,449)** | **(1,021)** | **-** |
| **Adjustments between Revenue and Capital Resources** | | | |
| Transfer of non-current asset sale proceeds from revenue to the Capital Receipts Reserve | 529 | | (1,124) |
| Statutory provision for the repayment of debt | 700 | | |
| Capital expenditure financed from revenue balances | | | |
| **Total Adjustments between Revenue and Capital Resources** | **1,229** | **-** | **(1,124)** |
| **Adjustments to Capital Resources** | | | |
| Use of the Capital Receipts Reserve to finance capital expenditure | | - | 10 |
| Application of capital grants to finance capital expenditure | 874 | | |
| **Total Adjustments to Capital Resources** | **874** | | **10** |
| **Total Adjustments** | **(346)** | **(1,021)** | **(1,114)** |

## 9. Transfers to/from earmarked reserves

This note sets out the amounts set aside from the General Fund in earmarked reserves to provide for future expenditure plans and the amounts posted back from earmarked reserves to meet General Fund expenditure in 2017/18.

| | Balance at 31 March 2016 £000 | Transfers out 2016/17 £000 | Transfers in 2016/17 £000 | Balance at 31 March 2017 £000 | Transfers out 2017/18 £000 | Transfers in 2017/18 £000 | Balance at 31 March 2018 £000 |
|---|---|---|---|---|---|---|---|
| General Fund - earmarked | 1,123 | (176) | 18 | 965 | (752) | 22 | 235 |
| Legal Reserve | 385 | - | - | 385 | - | - | 385 |
| Insurance Reserve | 653 | - | - | 653 | - | - | 653 |
| LABGI Reserve | 14 | - | (14) | - | - | - | - |
| Asset Acquisition Reserve | 4 | - | (4) | - | - | - | - |
| Capital Reserve | 1,007 | (659) | - | 348 | - | - | 348 |
| Restructuring Reserve | 597 | - | - | 597 | - | - | 597 |
| Financial Management Reserve | - | - | 208 | 208 | - | - | 208 |
| **Total** | **3,783** | **(835)** | **208** | **3,156** | **(752)** | **22** | **2,426** |

## 10. Other Operating Expenditure

Other Operating Expenditure, as shown in the Comprehensive Income & Expenditure Account, is made up of the following items of expenditure:

| | 2016/17 £000 | 2017/18 £000 |
|---|---|---|
| Loss / (Surplus) on disposal of non-current assets | (529) | - |
| **Total** | **(529)** | **-** |

## 11. Financing and Investment Income and Expenditure

Financing and Investment income and Expenditure, as shown in the Comprehensive Income & Expenditure Account, is made up of the following items of expenditure:

| | 2016/17<br>£'000 | 2017/18<br>£'000 |
|---|---|---|
| Pensions Interest Expenditure | 1,390 | 1,180 |
| Property Investment Expenditure | 163 | 58 |
| Interest Payable and similar charges | 187 | 143 |
| **Total Financing and Investment Expenditure** | **1,740** | **1,381** |
| Property Investment Income | (1,863) | (1,522) |
| Change in the fair value of investment properties | (514) | (864) |
| Cash Investment Income | (81) | (58) |
| **Total Financing and Investment Income** | **(2,458)** | **(2,444)** |
| **Total Financing and Investment Income and Expenditure** | **(718)** | **(1,063)** |

## 12. Taxation and non-specific grant income

Taxation and non-specific grant income, as shown in the Comprehensive Income & Expenditure Account, is shown in the table below. Specific revenue grants have been credited to the relevant service line in the Net Cost of Services. Specific grants received are disclosed in note 30.

| | 2016/17<br>£000 | 2017/18<br>£000 |
|---|---|---|
| Council Tax Income | (7,682) | (7,786) |
| Business Rates retention income | (3,018) | (4,459) |
| New Homes Bonus | (1,823) | (2,044) |
| Revenue Support Grant | (1,605) | (771) |
| Other Non-Specific general grants | (489) | - |
| Capital grants and contributions | (299) | (3,410) |
| **Total Taxation & Non-Specific Grant Income** | **(14,916)** | **(18,470)** |

## 13. Property, plant and equipment

The table below analyses the movements in property, plant and equipment for the year. Further information on additions and enhancements to fixed assets can be found at note 33.

| | Land and Buildings £000 | Vehicles, Plant & Equipment £000 | Infrastructure Assets £000 | Community Assets £000 | Total Property, Plant and Equipment * £000 |
|---|---|---|---|---|---|
| **Cost or Valuation:** | | | | | |
| At 1 April 2017 | 45,811 | 9,876 | 1,709 | 3,406 | 60,802 |
| Additions | - | - | 103 | 1,347 | 1,450 |
| Reclassifications | 2,669 | (2,544) | - | - | 125 |
| Revaluation increases/(decreases) recognised in the Revaluation Reserve | 5,664 | - | - | - | 5,664 |
| Revaluation increases/(decreases) recognised in the Comprehensive Income & Expenditure Statement | (1,217) | - | - | - | (1,217) |
| Impairments | - | - | - | - | - |
| Derecognition - disposals | (250) | - | - | - | (250) |
| Other movements in cost or valuation | (170) | - | 170 | - | 1 |
| **At 31 March 2018** | **52,507** | **7,333** | **1,982** | **4,754** | **66,576** |
| **Accumulated Depreciation and Impairment:** | | | | | |
| At 1 April 2017 | (2,011) | (7,288) | (358) | (1,206) | (10,863) |
| Depreciation Charge | (896) | (139) | (56) | (76) | (1,167) |
| Depreciation written out to the Revaluation Reserve | 1,899 | - | - | - | 1,899 |
| Depreciation on consolidation | (553) | 553 | - | - | - |
| Derecognition - disposals | - | - | - | - | - |
| Depreciation on other movements | - | (4) | 2 | 1 | |
| **At 31 March 2018** | **(1,560)** | **(6,879)** | **(412)** | **(1,280)** | **(10,131)** |
| **Net Book Value:** | | | | | |
| **as at 31 March 2018** | **50,948** | **454** | **1,570** | **3,474** | **56,445** |
| **as at 31 March 2017** | **43,800** | **2,588** | **1,351** | **2,200** | **49,939** |

Movements in 2016/17:

| | Land and Buildings £000 | Vehicles, Plant & Equipment £000 | Infrastructure Assets £000 | Community Assets £000 | Assets under Construction £000 | Total Property, Plant and Equipment * £000 |
|---|---|---|---|---|---|---|
| **Cost or Valuation:** | | | | | | |
| At 1 April 2016 | 41,965 | 13,327 | 1,858 | 2,261 | - | 59,411 |
| Additions | - | 216 | - | 136 | - | 352 |
| Reclassifications | (75) | - | (48) | 48 | | (75) |
| Revaluation increases recognised in the Revaluation Reserve | 4,635 | - | - | 961 | - | 5,596 |
| Revaluation decreases recognised in the Comprehensive Income & Expenditure Statement | (626) | | (101) | - | | (727) |
| Derecognition - disposals | (88) | (3,667) | - | - | - | (3,755) |
| **At 31 March 2017** | **45,811** | **9,876** | **1,709** | **3,406** | **-** | **60,802** |
| **Accumulated Depreciation and Impairment:** | | | | | | |
| At 1 April 2016 | (1,814) | (10,167) | (336) | (1,115) | - | (13,432) |
| Depreciation Charge | (641) | (289) | (56) | (91) | - | (1,077) |
| Depreciation written out to the Revaluation Reserve | 444 | - | 34 | - | - | 478 |
| Derecognition - disposals | - | 3,168 | - | - | - | 3,168 |
| **At 31 March 2017** | **(2,011)** | **(7,288)** | **(358)** | **(1,206)** | **-** | **(10,863)** |
| **Net Book Value:** | | | | | | |
| **as at 31 March 2017** | **43,800** | **2,588** | **1,351** | **2,200** | **-** | **49,939** |
| **as at 31 March 2016** | **40,151** | **3,160** | **1,522** | **1,146** | | **45,979** |

***** There was no PFI asset included in Property, Plant and Equipment in 2016/17 or 2017/18

**Depreciation:**

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

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

**Capital Commitments**:

There were no capital commitments outstanding as at 31 March 2018.

**Effects of changes in estimates:**

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

**Revaluations:**

The Authority carries out a rolling programme that ensures all Property, Plant and Equipment required to be measured to fair value is revalued at least every five years. All Property Plant and Equipment valuations were carried out internally in 2017/18. Investment property valuations have been carried out by Vail Williams LLP. Valuations of land and buildings were carried out in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors, and the accounting policies set out in Note 1 (xvii).

| | Other Land and Buildings | Vehicles, plant, furniture and equipment | Total |
|---|---|---|---|
| | £000 | £000 | £000 |
| **Carried at historical cost:** | - | 7,333 | **7,333** |
| **Valued at fair value as at:** | | | |
| 31-Mar-18 | 24,845 | - | 24,845 |
| 31-Mar-17 | 985 | - | 985 |
| 31-Mar-16 | 14,989 | - | 14,989 |
| 31-Mar-15 | 405 | - | 405 |
| 31-Mar-14 | 11,283 | - | 11,283 |
| **Total cost or valuation** | **52,507** | **7,333** | **59,842** |

## 14. Investment Properties

The following items of income and expenditure have been accounted for in the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. Investment property income forms part of the Council's investment income and expenditure, which is detailed in note 11.

| | 2016/17 £000 | 2017/18 £000 |
|---|---|---|
| Rental income from investment property | (1,863) | (1,522) |
| Direct operating expenses arising from investment property | 163 | 58 |
| **Total direct income and expenditure** | **(1,700)** | **(1,464)** |
| Change in fair value of investment property | (514) | (864) |
| **Net (gain)/ loss** | **(2,214)** | **(2,328)** |

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

| | 2016/17 £000 | 2017/18 £000 |
|---|---|---|
| Balance at the start of the year | 20,830 | 21,737 |
| Additions in the year | 320 | - |
| Disposals in the year | (2) | - |
| reclassification of investment property | 75 | (125) |
| Net gains from fair value adjustments | 514 | 864 |
| **Balance at the end of the year** | **21,737** | **22,476** |

## 15. Intangible Assets

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

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

The carrying value of intangible assets is cost less any accumulated amortisation and any accumulated impairment loss. The cost is amortised on a straight-line basis. The amortisation of £27,000 charged to revenue in 2017/18 was attributed to the Service Head for Finance (£19,000) and to the Head of Planning (£3,000) within Net Expenditure.

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

| | 2016/17 £000 | 2017/18 £000 |
|---|---|---|
| Balance at the start of the year: | | |
| Gross carrying amounts | 820 | 856 |
| Accumulated amortisation | (597) | (625) |
| **Net carrying amount at the start of the year** | **223** | **231** |
| Additions in the year | 36 | 23 |
| Amortisation for the period | (28) | (27) |
| **Net carrying amount at 31st March** | **231** | **227** |

One item of capitalised software that is individually material to the net carrying cost of intangibles at the end of the year is the Civica finance system, the current net book value at 31 March of which is £221,000

## 16. Financial Instruments

The following categories of financial instruments are carried in the Balance Sheet. This note has been revised to incorporate all financial instruments and therefore prior year comparatives have been revised.

| | Current 2016/17 £'000 | Long Term 2016/17 £'000 | Current 2017/18 £'000 | Long Term 2017/18 £'000 |
|---|---|---|---|---|
| Investments | | | | |
| Cash Equivalents | 16,330 | - | 17,609 | - |
| Total Investments | 16,330 | - | 17,609 | - |
| Debtors | | | | |
| Loans and Receivables | 1,177 | 20 | 631 | 10 |
| Financial Assets carried at contracted amounts | 52 | 939 | 1,449 | 462 |
| Total Debtors | 1,229 | 959 | 2,080 | 472 |
| **Total Financial Assets** | **17,559** | **959** | **19,689** | **472** |
| Borrowings | | | | |
| Financial liabilities at amortised cost | (86) | (3,626) | (90) | (3,538) |
| Total Borrowings | (86) | (3,626) | (90) | (3,538) |
| Other Long-Term Liabilities | | | | |
| Finance Lease Liabilities | - | (248) | - | (248) |
| Total Other Long-Term Liabilities | - | (248) | - | (248) |
| Creditors | | | | |
| Financial liabilities at contracted amounts | (2,177) | - | (2,141) | - |
| Total Creditors | (2,177) | - | (2,141) | - |
| **Total Financial Liabilities** | **(2,263)** | **(3,874)** | **(2,231)** | **(3,786)** |

**Material Soft Loans**

The authority makes loans for car purchases to employees in the authority who are in posts that require them to drive regularly on the authority's business. None of these loans are considered material for the purposes of this note.

The gains and losses recognised in the Comprehensive Income & Expenditure Statement in relation to financial instruments are made up as follows:

| | 2016/17 | | 2017/18 | |
|---|---|---|---|---|
| | **Financial Assets - Loans and Receivables £'000** | **Financial Liabilities at amortised cost £'000** | **Financial Assets - Loans and Receivables £'000** | **Financial Liabilities at amortised cost £'000** |
| Interest expenditure | 161 | 22 | 141 | - |
| Fee Expenditure | 5 | | 3 | |
| **Total Expense** | 166 | 22 | 144 | - |
| Interest income (Cash) | (96) | - | (79) | - |
| Interest income (Accrued) | (6) | - | - | - |
| **Total Income** | (102) | - | (79) | - |
| **Net Gain / Loss (-) for the year** | **64** | **22** | **65** | **-** |

**Fair Value of Assets & Liabilities**

Financial Assets & Liabilities, represented by loans and receivables and long-term debtors and creditors are carried in the Balance Sheet at amortised cost. Their fair value can be assessed by calculating the present value of the cash flows that will take place over the remaining term of the instruments, using the following assumptions:

- Estimated ranges of interest rates, based on new lending rates.
- No early repayment or impairment is recognised.
- Where an instrument will mature in the next 12 months, carrying amount is assumed to approximate fair value.
- The fair value of trade and other receivables is taken to be invoiced or billed amount.

| | 31 March 2017 | | 31 March 2018 | |
|---|---|---|---|---|
| | **Carrying Amount £'000** | **Fair Value £'000** | **Carrying Amount £'000** | **Fair Value £'000** |
| Financial Assets | | | | |
| Cash Equivalents | 16,330 | 16,330 | 17,609 | 17,609 |
| Total value | 16,330 | 16,330 | 17,609 | 17,609 |

## 17. Inventories

The Council did not hold stock of a material value at 31 March 2018.

| | Fuel | | Other | | Total | |
|---|---|---|---|---|---|---|
| | 2016/17 £000 | 2017/18 £000 | 2016/17 £000 | 2017/18 £000 | 2016/17 £000 | 2017/18 £000 |
| Balance outstanding at start of year | 15 | - | 42 | - | 57 | - |
| Purchases | - | - | - | - | - | - |
| Recognised as an expense in the year | - | - | - | | - | - |
| Stock Transferred to Norse | (15) | - | (42) | - | (57) | - |
| **Balance outstanding at end of year** | | **-** | **-** | **-** | **-** | **-** |

## 18. Debtors

Long term debtors are amounts owed to the authority that are due after 12 months or more. Current debtors are amounts that are owed to the authority that are due during the next financial year.

| | Balance at 31 March 2017 £'000 | Balance at 31 March 2018 £'000 |
|---|---|---|
| **Amounts falling due within one year** | | |
| Prepayments and accrued income | 1,433 | 3,211 |
| Government departments | - | |
| HM Revenue and Customs (Value Added Tax) | 30 | 422 |
| Other Local Authorities | 265 | 265 |
| Collection Fund - Havant Borough Council | 781 | 3,220 |
| Partnership Companies | 478 | 478 |
| Debtors for services | 899 | 451 |
| Community Infrastructure Levy Debtor S/T | | 1,401 |
| Housing Benefit Debtors | 2,140 | 2,471 |
| **Debtors due within one year** | **6,026** | **11,919** |
| Doubtful debts allowance | | |
| General Fund | (1,868) | (2,243) |
| Collection Fund | (205) | (1,831) |
| **Total Debtors due within 1 year** | **3,953** | **7,845** |

| | | |
|---|---|---|
| **Long Term Debtors** | | |
| Employee Car Loans | 83 | 77 |
| Loans to Local Organisations | 21 | 10 |
| Deferred Capital receipts | 172 | - |
| Community Infrastructure Levy Debtor L/T | 855 | 385 |
| **Total Long-Term Debtors** | **1,131** | **472** |

## 19. Cash and cash equivalents

The authority defines cash equivalents as any financial instrument that can be immediately converted into a known amount of cash without incurring any penalty. Cash Equivalents were made up of the following elements:

| | 31 March 2017<br>£000 | 31 March 2018<br>£000 |
|---|---|---|
| Bank current accounts | 445 | 402 |
| Short term deposits | 16,755 | 18,053 |
| **Total cash and cash equivalents** | **17,200** | **18,455** |
| Bank overdraft | (870) | (846) |
| **Total cash, cash equivalents and bank overdraft** | **16,330** | **17,609** |

## 20. Creditors

Creditors are amounts owed by the authority at 31 March.

| | Balance 31 March 2017<br>£'000 | Balance 31 March 2018<br>£'000 |
|---|---|---|
| **Amounts falling due within one year** | | |
| Accruals and income in advance | 3,599 | 4,335 |
| Government departments | 2,660 | 2,675 |
| Her Majesty's Revenues and Customs (Income Tax) | 185 | 198 |
| Collection Fund balance due from Central Government and Major Preceptors | (642) | 214 |
| Other Local Authorities | 3 | - |
| Collection Fund - Havant Borough Council | 513 | 668 |
| Creditors for goods and services | 657 | 647 |
| **Total Creditors payable within 1 Year** | **6,975** | **8,737** |
| **Amounts falling due over one year** | | |
| Finance Lease - Regional Business Centre (Note 34) | 248 | 248 |
| **Total Creditors payable after 1 year** | **248** | **248** |

## 21. Provisions

Provisions at 31 March 2018 represent amounts set aside for the purpose of providing for liabilities, which are likely or certain to be incurred but are uncertain as to the amount or the date on which they will arise.

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

Businesses in the Havant Borough Council area are entitled to appeal against the rating valuation of their property. The Council bears 40% of the cost of business rates appeals. The provision is created based on known appeals that have yet to be settled.

Municipal Mutual Insurance (MMI) was a local authority owned mutual providing insurance to the Council which ceased business in 1992. However, MMI is still liable for certain insurance claims which, if not covered by MMI's remaining assets, will be apportioned between the member authorities. A Supreme Court ruling in March 2012 gave certainty that MMI will incur full liability for Mesothelioma claims, significantly increasing the likelihood that costs will be incurred by the Council. The latest estimate of potential liability is £100,000 and a provision has been created to ensure the council can meet this liability.

| | **Insurance Fund £000** | **Business Rates Backdated Appeals £000** | **S106 Interest £000** | **MMI £000** | **Total £000** |
|---|---|---|---|---|---|
| Balance outstanding at 1 April 2017 | 123 | 665 | 13 | 100 | 901 |
| Additional provisions made during the year | - | 23 | - | - | 23 |
| Unused amounts reversed in the year | - | - | - | - | - |
| Amounts used in the year | (31) | (96) | - | - | (127) |
| **Balance outstanding at 31 March 2018** | **92** | **592** | **13** | **100** | **797** |

| | | | | | |
|---|---|---|---|---|---|
| Under one year | 66 | - | - | - | 66 |
| One year and over | 26 | 592 | 13 | 100 | 731 |
| **Balance outstanding at 31 March 2018** | **92** | **592** | **13** | **100** | **797** |

## 22. Usable reserves

Movements in usable reserves are detailed in the Movement in Reserves Statement and Note 9.

| | Balance at 31 March 2017 £000 | Movement in year £000 | Balance at 31 March 2018 £000 |
|---|---|---|---|
| General Fund Balance | 7,137 | 166 | 7,303 |
| Earmarked Reserves | 3,156 | (730) | 2,426 |
| Capital Receipts Reserve | 1,313 | 124 | 1,437 |
| Capital Grants and other contributions unapplied | 4,464 | 4,223 | 8,687 |
| **Total** | **16,070** | **3,780** | **19,853** |

## 23. Unusable reserves

| | 31 March 2017 £000 | 31 March 2018 £000 |
|---|---|---|
| Revaluation reserve | 21,720 | 28,804 |
| Capital adjustment account | 40,892 | 40,351 |
| Pensions reserve | (48,230) | (49,989) |
| Collection fund adjustment account | (590) | (853) |
| Accumulated absences account | (105) | (80) |
| **Total unusable reserves** | **13,687** | **18,233** |

**Revaluation reserve:**

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

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

The reserve contains only revaluation gains accumulated since 1 April 2007, the date that the reserve was created. Accumulated gains arising before that date are consolidated into the balance of the

**Revaluation Reserve**

| | 31 March 2017 | | 31 March 2018 | |
|---|---|---|---|---|
| | **£000** | **£000** | **£000** | **£000** |
| Balance outstanding at start of year | | 16,545 | | 21,720 |
| Upward revaluation of assets | 6,075 | | 8,271 | |
| Downward revaluation of assets and impairment losses not charged to the Surplus/Deficit on the Provision of Services | (503) | | (707) | |
| Surplus or deficit on revaluation of non-current assets not posted to the Surplus or Deficit on the Provision of Services | | - | | |
| Difference between fair value depreciation and historical cost depreciation | | (397) | | (480) |
| **Balance outstanding at end of year** | | **21,720** | | **28,804** |

**Capital adjustment account:**

| | 31 March 2017 £000 | | 31 March 2018 £000 | |
|---|---|---|---|---|
| **Balance outstanding at start of year** | | 40,476 | | 40,892 |
| Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement: | | | | |
| - Charges for depreciation and impairment of non-current assets | (1,295) | | (1,167) | |
| - Amortisation of intangible assets | (28) | | (27) | |
| - Revenue expenditure funded from capital under statute | (819) | | (653) | |
| - Revaluation losses on Property, Plant and Equipment | - | | (1,216) | |
| - Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement | (596) | | (250) | |
| | | (2,738) | | (3,313) |
| Adjusting amounts written out of the Revaluation Reserve | | 397 | | 480 |
| Net written out amount of the cost of non-current assets consumed in the year | | (2,341) | | (2,833) |
| **Capital financing applied in the year:** | | | | |
| - Use of the Capital Receipts Reserve to finance new capital expenditure | 11 | | 126 | |
| - Use of specific reserves to finance new capital expenditure | 658 | | - | |
| - Use of the General Fund to finance new capital expenditure | - | | - | |
| - Capital grants and contributions applied to capital financing | - | | 653 | |
| - Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing | 874 | | - | |
| - Statutory provision for the financing of capital investment charged against the General Fund | 700 | | 650 | |
| | | 2,243 | | 1,429 |
| Movements in the market value of Investment Properties debited or credited to the Comprehensive Income and Expenditure Statement | | 514 | | 864 |
| **Balance outstanding at end of year** | | **40,892** | | **40,351** |

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

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

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

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

**Pensions reserve**

The Pensions reserve absorbs the timing differences arising from the different arrangements for accounting for post-employment benefits and for funding benefits in accordance with statutory provisions. The Authority accounts for post-employment benefits in the Comprehensive Income and Expenditure Statement as the benefits are earned by employees accruing years of service, updating the liabilities recognised to reflect inflation, changing assumptions and investment returns on any resources set aside to meet the costs. However, statutory arrangements require benefits earned to be financed as the Authority makes employer's contributions to pension funds, or eventually pays any pensions for which it is directly responsible. The debit balance on the Pensions Reserve therefore shows a substantial shortfall in the benefits earned by past and current employees and the resources the Authority has set aside to meet them. The statutory arrangements will ensure that funding will have been set aside by the time the benefits come to be paid.

| | **31 March 2017 £000** | **31 March 2018 £000** |
|---|---|---|
| Balance outstanding at start of year | (41,820) | (48,230) |
| Actuarial gains or (losses) on pensions assets and liabilities | (5,140) | (210) |
| Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement | (2,890) | (3,290) |
| Employer's pensions contributions and direct payments to pensioners payable in the year | 1,620 | 1,741 |
| **Balance outstanding at end of year** | **(48,230)** | **(49,989)** |

### Collection Fund adjustment account

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

| | **31 March 2017 £000** | **31 March 2018 £000** |
|---|---|---|
| Balance outstanding at start of year | 207 | (590) |
| Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from income calculated for the year in accordance with statutory requirements | (129) | (7) |
| Amount by which Business Rates income credited to the Comprehensive Income and Expenditure Statement is different from income calculated for the year in accordance with statutory requirements | (668) | (256) |
| **Balance outstanding at end of year** | **(590)** | **(853)** |

### Accumulated absences account

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

| | **31 March 2017 £000** | | **31 March 2018 £000** | |
|---|---|---|---|---|
| Balance outstanding at start of year | | (104) | | (105) |
| Settlement or cancellation of accrual made at the end of the preceding year | 104 | | 105 | |
| Amounts accrued at the end of the current year | (105) | | (80) | |
| Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements | | (1) | | 24 |
| **Balance outstanding at end of year** | | **(105)** | | **(80)** |

## 24. Net cash flow from operating activities

The cash flows for operating activities include the following items.

| | 2016/17<br>£000 | 2017/18<br>£000 |
|---|---|---|
| Depreciation and Amortisation | 1,099 | **1,173** |
| Impairment and downward valuations | - | **1,216** |
| Net book value of disposed assets | - | **250** |
| (Increase) / Decrease in Capital Grants in Advance | 232 | **11** |
| (Increase) / Decrease in Debtors | (1,125) | **(3,233)** |
| Increase / (Decrease) in Creditors | 1,734 | **1,762** |
| Increase / (Decrease) in Provisions | (825) | **(105)** |
| Increase / (Decrease) in Stock | 57 | **-** |
| Movement in Pension Liability | 1,270 | **1,629** |
| Changes in fair value of investment properties | (514) | **(864)** |
| Movement in Fair Values of Financial instruments | - | **-** |
| Donated Assets | - | **-** |
| Other non-cash items charged to the net surplus or deficit on the provision of services | (51) | **51** |
| | **1,877** | **1,890** |

Adjustments to net surplus or deficit on the provision of services for non -cash movement

| | | 2017/18<br>£000 |
|---|---|---|
| Proceeds from the sale of property, plant and equipment, investment property and intangible assets | 529 | **(250)** |
| Any other items for which the cash effects are investing or financing cash flows | (299) | **(4,905)** |
| | **230** | **(5,155)** |

## 25. Net cash flow from investing activities

| | 2016/17<br>£000 | 2017/18<br>£000 |
|---|---|---|
| Purchase of property, plant & equipment, investment property and intangible assets | (707) | **(1,473)** |
| Other payments for investing activities | - | **(28)** |
| Proceeds from sale of property, plant & equipment, investment property and intangible assets | 1,124 | **250** |
| Other receipts for investing activities | 299 | **4,905** |
| | **716** | **3,654** |

## 26. Net cash flow from financing activities

| | 2016/17<br>£000 | 2017/18<br>£000 |
|---|---|---|
| Cash payments for the reduction of the outstanding liabilities relating to finance leases | - | - |
| Cash repayments of short and long-term borrowing | (83) | (84) |
| **Net cash flows from financing activities** | **(83)** | **(84)** |

## 27. Officers' Remuneration

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

| Post Holder information | Year | Salary, fees and allowances £ | Payments for loss of employment £ | Employers' pension contributions £ | **Net cost to Havant Borough Council £** | Net cost to East Hampshire District Council £ |
|---|---|---|---|---|---|---|
| Chief Executive | 2017/18 | 132,066 | - | 18,621 | **75,344** | 75,344 |
| | *2016/17* | *130,066* | - | *17,019* | ***73,542*** | *73,542* |
| Executive Director - Operations (Agency fee June to October 2017, employed from November 2017) | 2017/18 | 110,000 | | 2,585 | ***56,293*** | *56,293* |
| | *2016/17* | *149,318* | - | *6,004* | ***77,661*** | *77,661* |
| Executive Director - Governance (left 19/03/18) | 2017/18 | 104,421 | | 13,743 | ***59,082*** | *59,082* |
| | *2016/17* | *103,722* | - | *13,257* | ***58,490*** | *58,490* |
| Executive Director - Commercial | 2017/18 | 103,109 | - | 13,133 | ***58,121*** | *58,121* |
| | *2016/17* | *101,609* | - | *13,311* | ***57,460*** | *57,460* |
| Chief Finance Officer S151 (Employed from December 2017) | 2017/18 | 50,859 | - | 3,871 | ***27,365*** | *27,365* |
| | *2016/17* | - | - | - | **-** | - |
| **Total cost of senior officers - 2017/18** | | | | | **276,204** | **276,204** |
| ***Total cost of senior officers - 2016/17*** | | | | | ***267,153*** | ***267,153*** |

*A senior employee is defined as an officer who earns a salary of more than £150,000 per annum, or is the designated head of the paid service, or is a statutory chief officer, or is any person having responsibility for the strategic management of the council, to the extent that the officer has power to direct or control the major activities of the council activities involving the expenditure of money, whether solely or collectively with other officers. The Council shares its management team 50/50 with East Hampshire District Council. The remuneration disclosed excludes any payments for secondary employment in respect of election duties.

The Authority's other employees receiving more than £50,000 remuneration for the year (excluding employer's pension contributions) were paid the following amounts, based on pro rata salary rather than actual payments:

| Bands | Number of Employees | | | |
|---|---|---|---|---|
| | 2017/18 excl termination benefits | 2017/18 inc termination benefits | 2016/17 excl termination benefits | 2016/17 inc termination benefits |
| £50,000 - £54,999 | - | - | 2 | 2 |
| £55,000 - £59,999 | 2 | 2 | 2 | 1 |
| £60,000 - £64,999 | - | - | 4 | 5 |
| £65,000 - £69,999 | 4 | 5 | 1 | 2 |
| £70,000 - £74,999 | - | - | 2 | 2 |
| £75,000 - £79,999 | 2 | 2 | 1 | 1 |
| £85,000 - £89,999 | 1 | 1 | - | - |
| £95,000 - £99,999 | - | - | - | 1 |
| | **9** | **10** | **12** | **14** |

The numbers of exit packages with total cost per band are set out in the table below.

| Cost band | Number of compulsory redundancies | | Total cost of exit packages £ | |
|---|---|---|---|---|
| | 2016/17 | 2017/18 | 2016/17 | 2017/18 |
| £0 - £20,000 | 2 | 3 | 22,404 | 26,500 |
| £20,001 - £40,000 | 1 | - | 20,154 | - |
| £40,001 - £60,000 | 1 | 1 | 50,532 | 41,848 |
| £60,001 - £80,000 | - | - | - | - |
| **Total** | **4** | **1** | **93,090** | **68,348** |

## 28. Members' Allowances

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

| | 2016/17 £000 | 2017/18 £000 |
|---|---|---|
| Allowances | 315 | 315 |
| Expenses | 15 | 6 |
| **Total** | **330** | **321** |

### 29. External audit costs

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

| | 2016/17 £000 | 2017/18 £000 |
|---|---|---|
| Fees payable regarding external audit services carried out by the appointed auditor for the year | 52 | 46 |
| Fees payable for the certification of grant claims and returns for the year | 13 | 9 |
| **Total** | **65** | **55** |

### 30. Grant Income

The Authority credited the following grants, subsidies and contributions to the Net Cost of Services in 2017/18:

| **Credited to services** | 2016/17 £000 | 2017/18 £000 |
|---|---|---|
| Disabled Facilities Grants | 1,454 | 1,490 |
| Broadmarsh revetment maintenance contribution | 54 | - |
| Department for work and pensions: Housing Benefits Subsidy | 31,784 | 30,734 |
| Housing Benefit - Discretionary Housing Grant | 181 | 268 |
| Housing Benefit - Administration Grant | 393 | 364 |
| Public Health Grant | 24 | 12 |
| Mend Grant | - | 7 |
| Older People Grant | - | 3 |
| Trans Support Grant | 66 | - |
| Hants & Local Welfare Assistance Grant | - | 10 |
| EA P2P | 192 | 29 |
| Section 31 Local Gov Act 2003 Grant | 427 | - |
| Energy and Climate Change | 54 | - |
| Domestic Abuse Grant | 49 | - |
| Community Housing Grant | - | 48 |
| Burden Housing | - | 18 |
| Coastal Community Team | - | 50 |
| HCC Elections | - | 115 |
| Sport & Physical Activity | - | 15 |
| S106 Funding | - | 40 |
| Homelessness Support Grant | - | 39 |
| CT Flood Grant | - | 169 |
| **Total** | **34,678** | **33,411** |

The Authority also credited the following general grants and contributions to the Comprehensive Income and Expenditure Statement, as outlined at note 12:

| Credited to taxation and non-specific grant income | 2016/17 £000 | 2017/18 £000 |
|---|---|---|
| Council Tax Family Annex grant | - | 1 |
| New Homes Bonus | 1,823 | 2,044 |
| Revenue support grant | 1,605 | 771 |
| Section 31 grant - Business rates inflation cap | 58 | - |
| Section 31 grant - Small Business Rate Relief | 427 | - |
| Transitional Relief | 3 | - |
| **Total General Grants** | **3,917** | **2,816** |

**Capital grants**

| | | |
|---|---|---|
| CIL contributions | - | 2,333 |
| Other external contributions | 299 | 1,076 |
| **Total** | **299** | **3,409** |

The Authority is holding a balance of £3.50m on the Balance Sheet in respect of Capital Grants and Contributions received in advance. This balance includes both developers' contributions and a contribution from Hampshire County Council.

The Council received a contribution of £2.33m from Hampshire County Council towards the cost of the refurbishment of the Public Service Plaza. With effect from 1 June 2012 the Council agreed that Hampshire County Council could occupy a proportion of the Public Service Plaza for 25 years. The contribution is held in the Balance Sheet as a receipt in advance to be amortised in equal annual instalments to the Comprehensive Income and Expenditure Account (CI&E) over the term of the occupancy agreement.

## 31. Related Parties

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

**Central Government**

Central government has effective control over the general operations of the Authority. It is responsible for providing the statutory framework within which the Authority operates, provides a significant amount of funding in the form of grants and prescribes the terms of many of the transactions that the Authority has with other parties, for example council tax bills and housing benefits. Grants received from government departments are detailed in Note 30.

**Members**

Members of the council have direct control over the council's financial and operating policies. The total of members' allowances paid in 2017/18 is shown in Note 28. There was no known material related party transaction with councillors for 2017/18 or for 2016/17.

**Officers**

There was no known material related party transaction with officers for 2017/18 or for 2016/17.

**Entities Controlled or Significantly influenced by the Authority**

The Authority provided material assistance to Havant & District Citizens Advice Bureaux of £114,372 (£127,000 in 2016/17) and to Community First (Havant & East Hampshire) of £44,904 (£56,000 in 2016/17).

As part of the partnership with Norse South East, two Council representatives are named as a director of Norse South East Ltd due to her representation of Council interests through the Management Board. These are, Gill Kneller (Commercial Director), and Councillor Tony Briggs.

## 32. Interests in Other Entities

The Council must consider all its interests in entities and prepare a full set of group accounts where they have material interests in subsidiaries, associates or joint ventures. The following actions are carried out:

- Determine whether the Council has any form of interest in an entity
- Assess the nature of the relationship with the Council
- Determine the grounds of materiality whether group accounts should be prepared.

Having considered the accounting requirements and the Council's involvement with all companies and organisations, Group Accounts have been prepared. These incorporate only the results of Norse South East Ltd, an Associate of which the Council owns a 20% share.

## Norse South East Ltd (NSE)

In 2016/17 the Council entered into an agreement with Norse Commercial Services Ltd for the provision of services including Refuse and recycling collection and Grounds Maintenance. A new company, NSE Ltd, was formed to deliver this service.

Group Accounts have been prepared as the Council has the power to participate in operating decisions, and because transactions between NSE Ltd and the Council are material. The Group Accounts incorporate the Council's share of net assets and surplus of NSE Ltd, as an associate, using the Equity method.

NSE prepared its accounts to 31 March 2018. The group accounts are included in this document as additional columns to the Council's Primary Statements, showing the extent of the Council's 20% interest in the Company.

In addition, the following information is disclosed to aid understanding of the nature of the group relationship and the impact of the arrangement on the Council's Statutory Accounts.

a) The registered name of the Company is Norse South East Ltd
b) Nature of the business. The principal activities of the Company are those of refuse and recycling collection and grounds maintenance services.
c) The immediate parent undertaking is Norse Commercial Services Ltd
d) The ultimate parent is Norse Group Ltd
e) The Company's ultimate controlling entity is Norfolk County Council, who own 100% of the ordinary share
f) The Council holds a 20% share of the company and receives a 50/50 profit/loss share at year end.
g) The Company's contribution to its pension scheme is treated as if they are contributions to a defined contribution scheme. The Company pays a set contribution over the life of the agreement, with any increase or decrease met by the Council.
h) Payments made to NSE in respect of refuse, recycling, cleansing and maintenance services are included in the Net cost of Services in the Comprehensive Income & Expenditure Statement. Total payments in 2017/18 amounted to £4,194,000
i) Details of the Company's annual financial results at 31 March 2018 are set out below.

**Norse South East 2017/18 Balance Sheet**

| | Norse South East Ltd 2017/18 £ | Havant Borough Council 20% Investment 2017/18 £ |
|---|---|---|
| **Non-current assets** | - | - |
| Inventories | 103,947 | 20,789 |
| Trade and other receivables | 1,520,187 | 304,038 |
| Cash and cash equivalents | 9,052 | 1,810 |
| Deferred Tax asset | 8,024 | 1,605 |
| Total Current assets | 1,641,210 | 328,242 |
| **Total Assets** | **1,641,210** | **328,242** |
| **Current liabilities** | | |
| Trade & Other creditors | (1,078,474) | (215,694) |
| Accruals and deferred income | (306,423) | (61,285) |
| **Total Current Liabilities** | (1,384,897) | (276,979) |
| Non-current liabilities | - | - |
| **Total liabilities** | (1,384,897) | (276,979) |
| **Net assets** | **256,313** | **51,263** |
| | | |
| **Total Equity/Retained earnings** | **256,313** | **51,263** |

**Norse South-East Profit & Loss Account**

| | Norse South East Ltd 2017/18 £ | HBC 20% Investment 2017/18 £ |
|---|---|---|
| **Group revenue** | 6,378,712 | 1,275,742 |
| Cost of sales - recurring | (4,443,376) | (888,675) |
| **Gross profit** | **1,935,336** | **387,067** |
| Administrative expenses | (1,757,381) | (351,476) |
| **Operating profit** | **177,955** | **35,591** |
| Finance costs | (13,484) | (2,697) |
| **Profit before taxation** | **164,471** | **32,894** |
| Taxation | (39,205) | (7,841) |
| **Profit for the financial year** | **125,266** | **25,053** |

**Other Partnerships**

The Council has an interest in Portchester Crematorium Joint Committee which manages the operations of Portchester Crematorium. The Joint Committee is represented equally by the four constituent authorities, Fareham Borough Council, Havant Borough Council, Gosport Borough Council and Portsmouth City Council. Further information can be obtained from: The Treasurer to the Joint Committee, Civic Centre, Civic Way, Fareham. The accounts of this entity have not been consolidated into the financial statements of the Council. Havant Borough Council's share of the net assets of Portchester Crematorium Joint Committee is £1,990,339 *(*£1,960,000 in 2016/17*).* During 2017/18 the Council received £145,000 from the Portchester Crematorium Joint Committee (£130,000 in 2016/17) being its share of the distributable surpluses.
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## 33. Capital Expenditure and Capital Financing

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

| | 2016/17<br>£000 | 2017/18<br>£000 |
|---|---|---|
| **Opening capital financing requirement** | 9,784 | 9,084 |
| Capital investment: | | |
| - Property, plant and equipment | 707 | 1,473 |
| Revenue expenditure funded from capital under statute | 819 | 653 |
| Sources of finance: | | |
| - Usable Capital receipts | (11) | (126) |
| - Revenue reserves | (658) | - |
| - Government grants and other contributions | (857) | (653) |
| Sums set aside from revenue: | | |
| - MRP | (700) | (650) |
| **Closing capital financing requirement** | **9,084** | **9,781** |

| | 2016/17<br>£000 | 2017/18<br>£000 |
|---|---|---|
| **Explanation of movements in year:** | | |
| Increase / (decrease) in underlying need for borrowing (unsupported by government financial assistance) | (700) | 697 |
| **Increase/(decrease) in capital financing requirement** | **(700)** | **697** |

## 34. Leases

**Authority as Lessee**

Finance Leases

The Council has acquired a 98-year interest in a regional business centre under a finance lease. The asset acquired under this lease is carried as Property, Plant and Equipment in the Balance Sheet at £248,000 (2016/17 £250,000)

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

| | **31 March 2017 £'000** | **31 March 2018 £'000** |
|---|---|---|
| Finance lease liabilities: | | |
| - current | - | - |
| - non-current | 248 | 248 |
| Finance costs payable in future years | 2,760 | 2,726 |
| Minimum lease payments | 3,008 | 2,974 |

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

| | **Finance Lease Liabilities** | | **Minimum Lease Payments** | |
|---|---|---|---|---|
| | **31 March 2017 £'000** | **31 March 2018 £'000** | **31 March 2017 £'000** | **31 March 2018 £'000** |
| Not later than one year | - | - | 34 | 34 |
| Later than one year and not later than five years | - | - | 136 | 136 |
| Later than five years | 248 | 248 | 2,590 | 2,556 |
| | **248** | **248** | **2,760** | **2,726** |

The minimum lease payments do not include rents that are contingent on events taking place after the lease was entered into, such as adjustments following rent reviews. In 2017/18 £14,000 contingent rents were payable by the Authority (2016/17 £14,000).

Operating Leases

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

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

| | 31 March 2017 £'000 | 31 March 2018 £'000 |
|---|---|---|
| Not later than one year | 17 | 10 |
| Later than one year and not later than five years | 24 | 25 |
| Later than five years | 119 | 140 |
| | **160** | **175** |

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

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

The Council had no rental obligation as lessee under operating leases during 2017/18.

| **Service Heading** | 31 March 2017 £'000 | 31 March 2018 £'000 |
|---|---|---|
| Cultural Services | 7 | 8 |
| Environmental & Regulatory Services | 10 | 2 |
| | **17** | **10** |

**Authority as Lessor**

**Finance Leases**

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

**Operating Leases**

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

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

| | 31 March 2017 | 31 March 2018 |
|---|---|---|
| | **£000** | **£000** |
| Not later than one year | 1,884 | 1,892 |
| Later than one year and not later than five years | 6,566 | 6,843 |
| Later than five years | 68,390 | 74,190 |
| | **76,840** | **82,925** |

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

## 35. Impairment losses

There were no impairments in the 2017/18 financial year.

## 36. Termination Benefits

The Authority terminated the contracts of four employees in 2017/18, incurring liabilities of £68,348 (£93,090 in 2016/17), in the form of compensation for loss of office. There were no costs relating to enhanced pension benefits.

## 37. Defined benefit pension schemes

The disclosures below relate to the funded liabilities within the Hampshire County Council Pension Fund (the "Fund"), which is part of the Local Government Pension Scheme (the "LGPS"). The LGPS is a funded defined benefit plan, with benefits earned up to 31st March 2014 being linked to final salary. Benefits after 31 March 2014 are based on a Career Average Revalued Earnings scheme. Details of the benefits earned over the period covered by this disclosure are set out in the Local Government Pension Scheme Regulations 2013 and The Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) regulations 2014. The funded nature of the LGPS requires Havant Borough Council and its employees to pay contributions into the Fund, calculated at a level intended to balance the pension liabilities with investment assets. Information on the framework for calculating contributions is set out in LGPS regulations 2013 and the Fund's Funding Strategy Statement. The last actuarial valuation was at 31 March 2018 and the contributions to be paid until 31 March 2020 resulting from that valuation are set out in the Fund's Rates and Adjustment Certificate. The Fund Administering Authority, Hampshire County Council, is responsible for governance of the Fund.

The assets allocated to Havant Borough Council in the Fund are notional and assumed to be invested in line with the investments of the Fund for the purposes of calculating the return to be applied to those notional assets over the Accounting period. The Fund is large and holds a significant proportion of its assets in liquid investments. As a consequence, there will be no significant restriction on realising assets if a large payment is required to be paid from the Fund in relation to an employer's liabilities. The assets are invested in a diversified spread of investments and the approximate split of assets for the Fund as a whole is shown in the disclosures. The administering Authority may invest a small proportion of the Fund's assets in the assets of some of the employers participating in the Fund if it forms part of their balanced investment strategy.

| **Financial Assumptions** | **31 March 2016** | **31 March 2017** | **31 March 2018** |
|---|---|---|---|
| Discount rate for scheme liabilities | 3.4% | 2.5% | **2.6%** |
| RPI Inflation | 2.8% | 3.1% | **3.2%** |
| CPI Inflation | 1.7% | 2.0% | **2.1%** |
| Pension Accounts revaluation rate | 1.7% | 2.0% | **2.1%** |
| Rate of general increase of salaries | 3.2% | 3.5% | **3.6%** |
| Rate of increase to pensions in payment | 1.7% | 2.0% | **2.1%** |

The mortality assumptions are based on the recent actual mortality experience of members within the fund and allow for expected future mortality improvements. Sample life expectancies at age 65 resulting from these mortality assumptions are shown below.

| Post Retirement Mortality | 31 March 2017 | 31 March 2018 |
|---|---|---|
| **Male** | | |
| Member aged 65 at accounting date | 24.0 | **24.1** |
| Member aged 45 at accounting date | 26.0 | **26.2** |
| **Female** | | |
| Member aged 65 at accounting date | 27.0 | **27.2** |
| Member aged 45 at accounting date | 29.3 | **29.4** |

**Asset Allocation**

The approximate split of assets for the Fund (based on data supplied by the Fund Administering Authority) are shown in the table below.

| | Asset split as at 31/3/2017 (% pa) | Asset split as at 31 March 2018 | | |
|---|---|---|---|---|
| | | Quoted (%) | Unquoted (% pa) | Total (%) |
| Equities | 60.3 | **58.5** | **4.1** | **62.6** |
| Property | 6.5 | **0.7** | **6.3** | **7.0** |
| Government Bonds | 25.2 | **23.5** | **0.2** | **23.7** |
| Corporate Bonds | 1.4 | **1.0** | **0.0** | **1.0** |
| Cash | 3.4 | **2.6** | **0.0** | **2.6** |
| Other | 3.2 | **0.2** | **2.9** | **3.1** |
| **Total** | 100.0 | **86.5** | **13.5** | **100.0** |

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

| | |
|---|---|
| Active members | 26% |
| Deferred Pensioners | 15% |
| Pensioners | 59% |

## Reconciliation of funded status to the Balance Sheet

| | Value as at 31 March 2016 Funded £m | Value as at 31 March 2016 Unfunded £m | Value as at 31 March 2017 Funded £m | Value as at 31 March 2017 Unfunded £m | Value as at 31 March 2018 Funded £m | Value as at 31 March 2018 Unfunded £m |
|---|---|---|---|---|---|---|
| Fair value of assets | 83.88 | - | 101.44 | - | **101.47** | **-** |
| Present value of defined benefit obligation | (125.05) | (0.65) | (148.82) | (0.85) | **(150.62)** | **(0.84)** |
| **Funded status** | (41.17) | (0.65) | (47.38) | (0.85) | **(49.15)** | **(0.84)** |
| Impact of minimum funding requirement / asset ceiling | - | - | - | - | **-** | **-** |
| **Asset / (liability) recognised on the balance sheet** | (41.17) | (0.65) | (47.38) | (0.85) | **(49.15)** | **(0.84)** |

**Breakdown of amounts recognised in the Surplus or Deficit on the Provision of Services and Other Comprehensive Income.**

| | Year Ending 31 March 2017 £m | | Year Ending 31 March 2018 £m | |
|---|---|---|---|---|
| | Funded | Unfunded | Funded | Unfunded |
| **Operating Costs** | | | | |
| Current Service Cost (including allowance for administration £0.02m) | 1.48 | - | 2.11 | - |
| Past Service Costs (including curtailments) | 0.02 | - | 0.02 | - |
| **Financing Costs** | | | | |
| Interest on net defined benefit liability / (asset) | 1.37 | 0.02 | 1.16 | 0.02 |
| **Pension expense recognised in Income & Expenditure** | **2.87** | **0.02** | **3.29** | **0.02** |
| **Re-measurements in Other Comprehensive Income** | | | | |
| Return on plan assets (in excess of) / below that recognised in net interest | (17.34) | - | (0.57) | - |
| Actuarial (gains) / losses due to changes in financial assumptions | 26.69 | 0.10 | (0.16) | - |
| Actuarial (gains) / losses due to changes in demographic assumptions | (1.82) | (0.02) | 0.00 | - |
| Actuarial (gains) / losses due to liability experience | (2.61) | 0.14 | 0.93 | 0.01 |
| **Total amount recognised in Other Comprehensive Income** | **4.92** | **0.22** | **0.20** | **0.01** |
| **Total amount recognised** | **7.79** | **0.24** | **3.49** | **0.03** |

**Changes to the Present Value of defined benefit obligation during the accounting period**

This table reconciles the movement in the overall pension liability for the year.

| | Year Ended 31 March 2017 £m | | Year Ended 31 March 2018 £m | |
|---|---|---|---|---|
| | **Funded** | **Unfunded** | **Funded** | **Unfunded** |
| Opening defined benefit obligation | 125.05 | 0.65 | 148.82 | 0.85 |
| Current service cost | 1.48 | - | 2.11 | - |
| Interest expense on defined benefit obligation | 4.18 | 0.02 | 3.66 | 0.02 |
| Contributions by Participants | 0.47 | - | 0.48 | - |
| Actuarial Gains (-) / Losses - financial assumptions | 26.69 | 0.10 | (0.16) | - |
| Actuarial Gains (-) / Losses - demographic assumptions | (1.82) | (0.02) | - | - |
| Actuarial Gains (-) / Losses - experience | (2.61) | 0.14 | 0.93 | 0.01 |
| Net Benefits Paid out | (4.64) | (0.04) | (5.24) | (0.04) |
| Past Service Cost | 0.02 | - | 0.02 | - |
| **Closing defined benefit obligations** | **148.82** | **0.85** | **150.62** | **0.84** |

**Changes to the Fair Value of Assets during the Accounting Period**

This table reconciles the movement in the fair value of pension assets for the year.

| | Year Ended 31 March 2017 £m | | Year Ended 31 March 2018 £m | |
|---|---|---|---|---|
| | **Funded** | **Unfunded** | **Funded** | **Unfunded** |
| Opening Fair Value of Assets | 83.88 | - | 101.44 | - |
| Interest return on Assets | 2.81 | - | 2.50 | - |
| Actuarial Gains / (-) Losses on assets | 17.34 | - | 0.57 | - |
| Contributions by the Employer | 1.58 | 0.04 | 1.72 | 0.04 |
| Contributions by Participants | 0.47 | - | 0.48 | - |
| Net Benefits Paid out | (4.64) | (0.04) | (5.24) | (0.04) |
| **Closing Present Value of Assets** | **101.44** | **-** | **101.47** | **-** |

**Actual Return on Assets**

This table shows the total return on pension fund assets. This includes the impact of any changes in assumptions made by the actuary.

| | Year Ended 31 March 2017 £m | Year Ended 31 March 2018 £m |
|---|---|---|
| Interest income on Assets | 2.81 | 2.50 |
| Re-measurement Gains / (-) Losses | 17.34 | 0.57 |
| **Actual Return on Assets** | **20.15** | **3.07** |

**Sensitivity Analysis**

The results shown in the Accounts are sensitive to the assumptions used. The approximate impact of changing the key assumptions on the present value of the funded defined benefit obligation as at 31 March 2018 and the projected service cost for the year ending 31 March 2019 is set out below. In each case, the only assumption mentioned is altered; all other assumptions remain the same. Sensitivity on unfunded benefits are excluded on grounds of materiality.

| **Funded LGPS Benefits** | **+0.1% pa** | **Base Figure** | **-0.1% pa** |
|---|---|---|---|
| **Discount rate assumptions** | | | |
| Present value of total obligation (£m) | 148.13 | 150.62 | 153.16 |
| % change in present value of total obligation | (1.7%) | | 1.7% |
| Projected service costs (£m) | 2.13 | 2.19 | 2.26 |
| **Approximate % change in service cost** | **(2.9%)** | | **3.0%** |
| **Rate of general increases in salaries** | | | |
| Present value of total obligation (£m) | 151.03 | 150.62 | 150.21 |
| % change in present value of total obligation | 0.3% | | (0.3%) |
| Projected service costs (£m) | 2.19 | 2.19 | 2.19 |
| **Approximate % change in service cost** | **-%** | | **-%** |
| **Rate of general increases in pensions in payment** | | | |
| Present value of total obligation (£m) | 152.74 | 150.62 | 148.53 |
| % change in present value of total obligation | 1.4% | | (1.4%) |
| Projected service costs (£m) | 2.26 | 2.19 | 2.13 |
| **Approximate % change in service cost** | **3.0%** | | **(2.9%)** |
| **Post retirement mortality assumptions** | | | |
| Present value of total obligation (£m) | 155.05 | 150.62 | 146.21 |
| % change in present value of total obligation | 2.9% | | (2.9%) |
| Projected service costs (£m) | 2.27 | 2.19 | 2.11 |
| **Approximate % change in service cost** | **3.6%** | | **(3.6%)** |

**Estimated Surplus or Deficit on the Provision of Services in future periods**

Estimates of charges to the Comprehensive Income and Expenditure Account in future periods are based on assumptions in place as at 31 March 2018, plus an additional assumption to reflect that the projected cost is based on benefits being earned under a CARE scheme.

| | **2018/19** | |
|---|---|---|
| | **Funded £m** | **Unfunded £m** |
| Projected Service Cost | 2.19 | - |
| Past Service Costs | - | - |
| Net interest on the net defined liability / (asset) | 1.25 | 0.02 |
| **Total** | **3.44** | **0.02** |

**Pension costs in future periods**

The pension costs shown in the next accounting period's accounts will be different to that shown above. Although it is not possible to give a reliable indication of the impact, the figures shown are subject to change. Reasons why the pension cost may change include:

1. Actual increase in payroll being different to that used in the calculations. The projected payroll figure is estimated from the implied payroll over the current accounting period. A figure of £7,160,000 has been used in the estimate (£6,800,000 in 2016/17). A difference in payroll will particularly affect current service costs.

2. Past service costs may not be zero. This cost is that resulting from benefit augmentations or early retirements before age 60 or on the grounds of efficiency.
3. Curtailment / settlement events may occur (for example, outsourcing, redundancy exercises, or bulk transfers)
4. Actual cash flows over the next accounting period may differ from those assumed.
5. The expected employer contributions in 2017/18 are £1,870,000 (£1,750,000 in 2016/17).

## 38. Contingent liabilities and contingent assets

At 31 March 2018 the authority has the following material contingent liabilities:

At the end of March, it was announced there would be a restructure of the finance team following on from the outsourcing of the service to Capita. The consultation process may lead to redundancies which may incur a cost to the council. If there is a cost this will be known in 2018/19 and should be covered by a financial reserve which has already been set aside in previous years.

There were no contingent assets.

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

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

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

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

**Credit Risk**

Credit risk arises from deposits with banks and financial institutions, as well as credit exposures to the authority's customers.

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

Limits for investment with these counterparties are in place; the maximum investment up to 364 days deposited with any one institution in the highest rated category was £4,000,000. No more than £2,000,000 can be invested for a period of more than 365 days without councillor involvement. No investment is to be made in an institution where it could be expected, at the time of investment, that the amount invested with that institution would at any time exceed 50% of the Authority's investments unless the total investments are below £3,000,000 and with authority from the Head of Governance and Logistics.

The Authority's maximum exposure to credit risk in relation to its investments in banks and building societies cannot be assessed generally as the risk of any institution failing to make interest payments or repay the principal sum will be specific to each individual institution. Risks relating to recoverability applies to all of the Authority's deposits, but there was no evidence at the 31 March 2018 that this was likely to crystallise. The Council has experienced no loss arising from defaults on its investments during the last five years.

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

No credit limit was exceeded during the reporting period. The Council's sundry debt profile was as follows:

| | **2017/18**<br>**£** |
|---|---|
| 0-60 days | 678,702 |
| 61-180 Days | 147,686 |
| 181-274 days | 16,231 |
| 275-365 days | 8,271 |
| Over one year | 89,133 |
| **Total** | **940,023** |

**Liquidity Risk**

The Council has £3.54m outstanding with the Public Works Loans Board at a fixed rate of 4.04% for 30 years. The Council is exposed to risk in terms of its exposure to interest rate movements on its borrowing such that a rise in interest rates will lead to the fair value of the borrowing falling. In addition, borrowings take place exceptionally to meet short term cash flow needs. In the event of an unexpected cash requirement the authority has ready access to borrowings from the money markets to cover any day to day cash flow need.

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

**Market Risk**

*Interest Rate Risk*

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

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

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

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

*Price Risk*

The Authority does not invest in equity shares.

*Foreign Exchange Risk*

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

## 40. Agency Services

The Council is responsible for aspects of highway maintenance within the borough on behalf of Hampshire County Council. The Council spent £330,000 in respect of highway revenue works (£419,000 in 2016/17). The County Council reimburses the Council for this work together with a contribution towards revenue administrative costs. Agency works expenditure is not included in the Comprehensive Income and Expenditure Account but administration costs and the associated County Council reimbursement are included. These grants have been reduced for the current year due to HCC reviewing their spend.

The Council has entered into an agency agreement with Hampshire County Council for the enforcement of On Street parking control. The net cost of this service was £24,000 during 2017/18 (£174,000 in 2016/17); all net costs are included within the Comprehensive Income and Expenditure Account. The net cost in the current year is less than 2016/17 mainly due to the Shared Parking Service Arrangement HBC has with East Hants District Council.

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

## 41. Events after the Balance Sheet Date

The Statement of Accounts was approved by the Responsible Finance Officer on 31 May 2018, and this is the date up to which events after the balance sheet date have been considered for inclusion in the Accounts. There were no post balance sheet events identified.

## 42. Authorisation of the statement of accounts

The Statement of Accounts was authorised by the Responsible Finance Officer on 25 July 2018,

# NOTES TO THE COLLECTION FUND

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

| 2016/17 | | 2017/18 | 2017/18 | 2017/18 |
|---|---|---|---|---|
| | | Business Rates | Council Tax | Total |
| £000 | **Income** | £000 | £000 | £000 |
| (60,083) | Income from Council Tax | | (63,046) | (63,046) |
| (34,525) | Income collectable from Business Ratepayers | (34,618) | - | (34,618) |
| **(94,608)** | | **(34,618)** | **(63,046)** | **(97,664)** |
| | **Expenditure** | | | |
| 58,744 | Precepts paid to Police and Crime Commissioner, Fire Authority, County and Borough Councils | - | 62,110 | 62,110 |
| 2,029 | Distribution of previous year's estimated surplus | (753) | 196 | (557) |
| 34,749 | Business Rates paid to Government, Fire Authority, County and Borough Councils | 34,701 | - | 34,701 |
| 500 | Provision for Business rates appeals | (183) | - | (183) |
| - | Interest on refunds | - | - | - |
| 326 | Transitional Relief due to Central Government | 1,056 | - | 1,056 |
| 140 | Costs of collection | 138 | - | 138 |
| 653 | Contribution to / (-) from Bad Debt Provision | 302 | 779 | 1,081 |
| **97,141** | | **35,261** | **63,085** | **98,346** |
| | **Movement on Fund Balance** | | | |
| (1,437) | Surplus (-) or Deficit brought forward | 1,643 | (547) | 1,096 |
| 2,533 | Surplus (-) or Deficit for the year | 643 | 39 | 682 |
| **1,096** | Surplus (-) or Deficit carried forward | **2,286** | **(508)** | **1,778** |

# NOTES TO THE COLLECTION FUND

## 1. Calculation of the council tax base

Council Tax is calculated by reference to the valuation band appropriate to each chargeable dwelling; the total yield being determined by what is known as the band D equivalent. The band D charge in 2017/18 was £1,555.18 (£1,495.12 in 2016/17). The Council Tax base was as follows:

| Tax Band | Property Value | Dwellings | Band D Equivalents | Weighting |
|---|---|---|---|---|
| A* | Reduced for exemptions | - | 4.60 | 5/9 |
| A | Up to £40,000 | 8,343 | 2,909.20 | 6/9 |
| B | Over £40,000 & up to £52,000 | 14,196 | 8,016.90 | 7/9 |
| C | Over £52,000 & up to £68,000 | 12,832 | 9,369.10 | 8/9 |
| D | Over £68,000 & up to £88,000 | 9,904 | 8,475.83 | 9/9 |
| E | Over £88,000 & up to £120,000 | 5,664 | 6,317.80 | 11/9 |
| F | Over £120,000 & up to £160,000 | 2,479 | 3,345.00 | 13/9 |
| G | Over £160,000 & up to £320,000 | 942 | 1,448.50 | 15/9 |
| H | Over £320,000 | 41 | 51.00 | 18/9 |
| | | **54,401** | **39,937.93** | |

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

The total non-domestic rateable value at the 31 March 2018 was £84,915,304 (£81,879,242 at 31 March 2017). The national non-domestic rate multiplier for the year was 47.9p (49.7p at 31 March 2017) and 46.6p for small businesses (48.4p at 31 March 2017).

## 3. Precepts and Demands on the Collection Fund

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

| 2016/17 | | ---------------2017/18--------------- | | |
|---|---|---|---|---|
| **Total £'000** | **Council Tax** | **Precept / Demand £'000** | **Share of Deficit/ surplus £'000** | **Total £'000** |
| 43,559 | Hampshire County Council | 45,253 | 141 | 45,394 |
| 6,480 | Hampshire Police Authority | 6,608 | 21 | 6,629 |
| 2,528 | Hampshire Fire & Rescue Service | 2,550 | 8 | 2,558 |
| 7,788 | Havant Borough Council | 7,699 | 26 | 7,725 |
| **60,355** | | **62,110** | **196** | **62,306** |

# NOTES TO THE COLLECTION FUND

| 2016/17 | | ---------------2017/18--------------- | | |
|---|---|---|---|---|
| Total | | Share of Business Rates | Share of Deficit/ surplus | Total |
| £'000 | **Business Rates** | £'000 | £'000 | £'000 |
| 17,583 | Central Government | 17,351 | (377) | 16,974 |
| 3,165 | Hampshire County Council | 3,123 | (7) | 3,116 |
| 351 | Hampshire Fire & Rescue Service | 347 | (68) | 279 |
| 14,067 | Havant Borough Council | 13,880 | (301) | 13,579 |
| **35,166** | | **34,701** | **(753)** | **33,948** |

# GLOSSARY OF TERMS

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

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

**Actuarial Gains & Losses (Pensions)**
Over reporting period, these consist of:
• Experience gains and losses are the effects of differences between previous assumptions made when calculating overall pension liability, and what has actually occurred, and
• The effects of changes in actuarial assumptions such as salary inflation and life expectancy on the pension liability.

**Billing Authority**
The Council responsible for collecting Council Tax from residents. Havant Borough Council is a billing authority.

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

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

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

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

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

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

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

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

**CIPFA**
The Chartered Institute of Public Finance and Accountancy.

# GLOSSARY OF TERMS

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

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

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

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

**Current Service Cost**
The present value of pension benefits accrued to employees in the period of account.

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

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

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

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

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

**Expected Rate of Return on Assets (Pensions)**
The expected increase in the value of pension fund assets, based on valuations and long-term expected returns as at the start of the accounting period.

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

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

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

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

**Gross Book Value (GBV)**
The GBV of a fixed asset is the value of the asset before depreciation has been applied.

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

**IFRS**
International Financial Reporting Standards

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

**Interest Cost (Pensions)**
Increase in present value of pension benefit obligations, which arise because the benefits are one year closer to payment.

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

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

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

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

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

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

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

# GLOSSARY OF TERMS

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

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

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

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

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

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

**Revenue Support Grant (RSG)**
A general government grant in support of local authority expenditure. The grant is calculated by Central Government and is based on the relative needs of the district.

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

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