



***TEST VALLEY***  
B O R O U G H C O U N C I L

**STATEMENT OF  
ACCOUNTS  
2012/13**

# CONTENTS

	<b><u>Pages</u></b>
Foreword by the Head of Finance	1 – 4
Statement of Responsibilities	5
Independent Auditor's Report	6 – 8
Comprehensive Income & Expenditure Statement	9
Movement In Reserves Statement	10
Balance Sheet	11
Cash Flow Statement	12
Notes to the Financial Statements	13 – 57
Collection Fund	58
Notes to the Collection Fund	59 – 60
Glossary of Terms	61 – 63
<u>Annex to the Financial Statements</u>	
Annual Governance Statement	64 - 73

## FOREWORD BY THE HEAD OF FINANCE

Following significant changes to the presentation of the Statement of Accounts in 2010/11 and further changes in 2011/12, there have been few changes to the presentational and disclosure requirements for 2012/13. Consequently, the Statement of Accounts and associated notes that follow are presented on a largely comparable basis to those prepared for 2011/12.

### The Statement of Accounts

The accounts comprise the following key statements:

- **The Statement of Responsibilities** declares the respective responsibilities of the Council and the Head of Finance for the production of the Statement of Accounts.
- **The Comprehensive Income & Expenditure Statement** shows all income and expenditure incurred by the Council throughout the year; it includes day-to-day transactions from running the organisation as well gains / losses on assets and pension liabilities. The total comprehensive income and expenditure shown represents the total movement in the Council's reserves during the year.
- **The Movement in Reserves Statement** summarises the changes in balances on the Council's reserves in the year. Reserves are classified as either usable or unusable. Usable reserves include the unallocated General Fund Balance, Earmarked Revenue Reserves and the Capital Receipts Reserve. These are the reserves that the Council can apply to future expenditure subject to statutory conditions (e.g. the Capital Receipts Reserve can only be used to finance capital expenditure). Unusable reserves such as the Capital Adjustment Account and Revaluation Reserve generally reflect the timing differences between the purchase and the consumption of economic benefits of assets.
- **The Balance Sheet** shows the financial position of the Council and discloses the assets and liabilities for all Council Services. At the balance sheet date the net worth of the Council was £121.8M.
- **The Cash Flow Statement** summarises the Council's cash transactions for the year.
- **The Collection Fund** records all income from Council Tax and business rates. Expenditure includes payments to the national business rates' pool, precepts to Hampshire County Council, Hampshire Fire and Rescue Authority, Hampshire Police Authority, local parish/town councils and Test Valley Borough Council's own demand on the Collection Fund. The Collection Fund is not incorporated within the Comprehensive Income & Expenditure Statement as it reflects the statutory requirement for billing authorities to maintain a separate Collection Fund.

**The Independent Auditor's Report** explains how the Council's auditors, Ernst & Young, plan their audit and the basis on which they provide an opinion on the Council's Statement of Accounts. It also gives the auditor's opinion on the Council's arrangements for securing economy, efficiency and effectiveness in the use of resources in the year.

**The Annual Governance Statement** accompanies the Statement of Accounts and explains how the Council ensures that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. It is not covered by the auditor's opinion but is considered by the auditor and reported on by exception in the auditor's report if it is not compliant with proper practice.

## Financial Performance

The Council monitors its budgets under two major headings: Revenue and Capital. Revenue spending relates to items consumed in the year and is financed from Council Tax, fees & charges, government grants and other income. Capital spending creates assets with a life of longer than one year and is financed from the sale of assets, government grants, contributions and revenue.

### General Fund Revenue Activities

The initial forecast of General Fund revenue requirements began soon after the budget for 2011/12 was approved. A significant range of essential savings / improved income opportunities was identified and included in the budget and this is likely to be required again in the medium term.

The detailed budget was approved by Council on 24<sup>th</sup> February 2012. The net expenditure forecast for 2012/13 agreed at this stage totalled £11.063M. No draws from general reserves were included in the budget.

The revised budget for 2012/13 was approved by Council on 22<sup>nd</sup> February 2013. The net expenditure was maintained at £11.063M, with no draws from general reserves.

The actual outturn for 2012/13 was better than expected, enabling an additional £435,000 to be transferred to earmarked and capital reserves.

A summary of the revised estimate and final outturn for revenue activities is shown in the table below.

	<b>Revised Budget 2012/13 £'000</b>	<b>Actual 2012/13 £'000</b>	<b>Variance £'000</b>
Service Expenditure (including Investment Property income and expenditure)	15,295	13,344	1,951
<b>Corporate Items</b>			
Reversal of capital charges including depreciation	(3,714)	(3,625)	(89)
Investment income and borrowing	(618)	(620)	2
Non-service related grants	(947)	(947)	0
Transfers to Earmarked / Capital reserves	1,014	2,286	(1,272)
Additional transfers to reserves arising from surplus in year	0	435	(435)
Transfer to Pension Reserve	0	195	(195)
Other	33	(5)	38
<b>GENERAL FUND REQUIREMENTS</b>	<b>11,063</b>	<b>11,063</b>	<b>0</b>
<b>Met By</b>			
Business Rates Re-Distribution & Revenue Support Grant	5,042	5,042	0
Council Tax	5,941	5,941	0
Other Collection Fund	80	80	0
<b>TOTAL REVENUE RESOURCES</b>	<b>11,063</b>	<b>11,063</b>	<b>0</b>

### Asset Valuation Programme

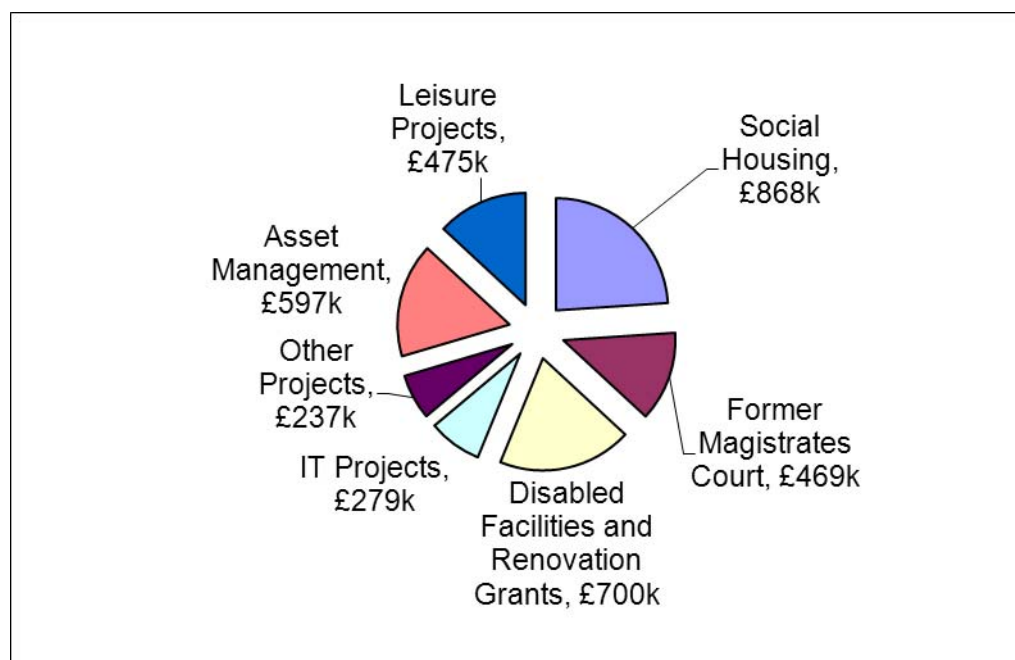
The Council's internal RICS qualified valuers provided a valuation certificate for all of the Council's investment properties and certain land and buildings assets. They also carried out an impairment review on all other non-current assets as at 31<sup>st</sup> March 2013.

This involved reviewing leases and covenants and knowledge of local property markets to determine an accurate, up-to-date value for inclusion in the accounts.

The net impact of the valuation programme was a reduction in the value of the Council's investment properties of £5.454M.

### **Capital Activities**

Capital spending for the year totalled £3.625M, as summarised below:



The Council finances its capital expenditure from a mixture of usable capital receipts, capital grants and contributions. In 2012/13, the majority of funding (52.3%) came from usable capital receipts (£1.896M) with the remainder (£1.729M) coming from capital grants and contributions from revenue. The Council has set aside reserves for the future maintenance of its assets; budgeted asset management costs in 2013/14 and beyond will be funded from this reserve. The Council is debt free and has no long term borrowing.

Major capital investment is planned over the next two financial years as shown below:

	<b>2013/14</b>	<b>2014/15</b>
	<b>£'000</b>	<b>£'000</b>
Social Housing capital projects	425	0
Leisure & Wellbeing projects	1,580	93
Disabled facilities and renovation grants	850	136
Asset Management projects	2,554	0
Romsey Town Centre Development	0	375
Other capital projects	582	274
<b>TOTAL</b>	<b>5,991</b>	<b>878</b>

## **Financial Position at the Year End**

General Fund reserves stood at £2M at 1<sup>st</sup> April 2012. I consider this to be a prudent minimum level of general reserves and this figure remains unchanged for the accounts at 31<sup>st</sup> March 2013.

In addition to the General Fund balances mentioned above, the Council held earmarked reserves of £11.649M available for specific revenue purposes and capital reserves of £34.349M available to spend on capital schemes.

### Accounting for Defined Benefit Pension Schemes

The Council has adopted the requirements of International Accounting Standard 19 (IAS19) "Employee Benefits", as applicable to defined benefit pension schemes. IAS19 is a complex accounting standard, but is based on a simple principle – that an organisation should account for retirement benefits when it is committed to give them, even if the actual giving will be many years into the future.

The main features of this standard are:

- A recognition in the Balance Sheet of the Council's share of the fund's net liability and
- Entries in the Comprehensive Income & Expenditure Statement for the movements in the liability to ensure that there is no impact on the General Fund Balance.

Full details of these adjustments can be found in note 12 to the core financial statements.

This Council's liability at 31<sup>st</sup> March 2013 was £57.7M, but statutory arrangements for funding this liability are in place and the financial position of the Council remains healthy.

## **Impact of the current economic climate on the Council and its services**

The Council remains committed to delivering high-quality services to all residents and is well positioned to continue to do this despite the current economic climate.

The surplus in 2012/13 has enabled the Council to bolster reserves held for the future maintenance and replacement of assets. This, together with a number of specific reserves held to ameliorate the impact of cuts in government funding, will help ensure that the financial challenges that will be faced in coming years can be managed in a controlled manner.

The Council's budget setting process is robust and I expect it to be flexible enough to prevent significant changes to front-line services in the medium term.

## **Conclusion**

For the year under review, the net financial result is pleasing. Due to a continuing drive for efficiency, the Council has been able to perform its services to a high level, and at the same time maintain its reserves at an adequate level to meet all known liabilities. In these circumstances the Council's finances continue to be in a stable and healthy condition, although there will be significant financial challenges in the years to come.

I would like to extend my appreciation to all those that have contributed to the timely production of this year's Statement of Accounts.

**W. Fullbrook CPFA**  
Head of Finance

# STATEMENT OF RESPONSIBILITIES FOR THE STATEMENT OF ACCOUNTS 2012/13

## The Council's Responsibilities

The Council is required to:

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

## The Head of Finance's Responsibilities

The Head of Finance 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 the United Kingdom* (the Code).

In preparing this Statement of Accounts, the Head of Finance has:

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

The Head of Finance has also:

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

## Certification of the Head of Finance

I hereby certify that the Statement of Accounts gives a true and fair view of the financial position of the Council at the accounting date and its income and expenditure for the year ended 31<sup>st</sup> March, 2013.

Signed ..... Date.....  
**W Fullbrook, CPFA, Head of Finance**

Signed ..... Date.....  
**Cllr I Carr, Leader, Test Valley Borough Council**

# **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF TEST VALLEY BOROUGH COUNCIL**

## **Opinion on the Authority's financial statements**

We have audited the financial statements of Test Valley Borough Council for the year ended 31 March 2013 under the Audit Commission Act 1998. The financial statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, and the related notes 1 to 34, and the Collection Fund and the related notes. 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 2012/13.

This report is made solely to the members of Test Valley Borough Council, as a body, in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the authority and the authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

### **Respective responsibilities of the Head of Finance and auditor**

As explained more fully in the Statement of the Head of Finance's Responsibilities set out on page 5, the Head of Finance 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 2012/13, and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

### **Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the Statement of Accounts 2012/13 are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Authority's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Head of Finance; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Statement of Accounts 2012/13 to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

### **Opinion on financial statements**

In our opinion the financial statements:

- give a true and fair view of the financial position of Test Valley Borough Council as at 31 March 2013 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 2012/13.



## **Opinion on other matters**

In our opinion, the information given in the Statement of Accounts 2012/13 for the financial year for which the financial statements are prepared is consistent with the financial statements.

## **Matters on which we report by exception**

We report to you if:

- in our opinion the annual governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007;
- we issue a report in the public interest under section 8 of the Audit Commission Act 1998;
- we designate under section 11 of the Audit Commission Act 1998 any recommendation as one that requires the Authority to consider it at a public meeting and to decide what action to take in response; or
- we exercise any other special powers of the auditor under the Audit Commission Act 1998.

We have nothing to report in these respects.

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

### **Respective responsibilities of the Authority and the auditor**

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.

We are required under Section 5 of the Audit Commission Act 1998 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 Audit Commission requires us to report to you our conclusion relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission.

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.

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

We have undertaken our audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in November 2012, as to whether the Authority has proper arrangements for:

- securing financial resilience; and
- challenging how it secures economy, efficiency and effectiveness.

The Audit Commission has determined these two criteria as those necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2013.

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 Authority had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

### **Conclusion**

On the basis of our work, having regard to the guidance on the specified criteria published by the Audit Commission in November 2012, we are satisfied that, in all significant respects, Test Valley Borough Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2013.

### **Certificate**

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

*Kate Handy*

*for and on behalf of Ernst & Young LLP  
Appointed Auditor  
Southampton*

30 September 2013

## COMPREHENSIVE INCOME & EXPENDITURE STATEMENT YEAR ENDED 31 MARCH 2013

This statement shows the accounting cost in the year on the provision of services in accordance with generally accepted accounting practices, rather than the amount to be funded from Council Tax. The Council raises Council tax to cover expenditure in accordance with regulations; this is different to the accounting cost. The reconciliation to the Council Tax position is shown in the Movement in Reserves Statement and analysed in note 5.

	2011/12		Net 2011/12 £'000	2012/13		Net 2012/13 £'000	Note
	Exp. £'000	Income £'000		Exp. £'000	Income £'000		
<b>Services</b>							
Central Services	7,998	6,719	1,279	7,799	6,760	1,039	
Cultural & Related Services	5,931	1,998	3,933	6,124	1,920	4,204	
Environmental & Regulatory Services	8,326	1,640	6,686	7,970	1,403	6,567	
Planning & Development Services	6,353	2,562	3,791	5,918	2,733	3,185	
Highways & Transport Services	1,988	2,514	(526)	1,715	2,645	(930)	
Housing Services	29,234	28,426	808	32,720	30,822	1,898	
Corporate & Democratic Core	3,208	39	3,169	3,281	12	3,269	
Non - Distributed Costs	20	0	20	23	0	23	
<b>Net Cost of Services</b>	<b>63,058</b>	<b>43,898</b>	<b>19,160</b>	<b>65,550</b>	<b>46,295</b>	<b>19,255</b>	
<b>Other Operating Income and Expenditure</b>							
Loss / (Profit) on disposal of Property, Plant & Equipment	647	329	318	0	60	(60)	18
Parish Precepts	1,069	1,069	0	1,085	1,085	0	
<b>Financing and Investment Income and Expenditure</b>							
Investment Income	0	772	(772)	0	634	(634)	27
Interest Payable	17	0	17	15	0	15	
Pension Fund Interest Costs	5,480	0	5,480	5,320	0	5,320	12
Pension Fund Return on Assets	0	4,250	(4,250)	0	3,950	(3,950)	12
Changes in Fair Value of Investment Properties	5,977	0	5,977	5,454	0	5,454	15
Profit on Disposal of Investment Properties	0	0	0	0	30	(30)	18
Net Investment Property Income	404	5,935	(5,531)	462	5,653	(5,191)	15
<b>Net Operating Expenditure</b>	<b>76,652</b>	<b>56,253</b>	<b>20,399</b>	<b>77,886</b>	<b>57,707</b>	<b>20,179</b>	
<b>Taxation and non-specific grant income</b>							
Council Tax Income	0	5,981	(5,981)	0	6,021	(6,021)	7
Non Ringfenced Government Grants	0	6,309	(6,309)	0	5,989	(5,989)	7
Capital Grants and Contributions	0	208	(208)	0	722	(722)	7
<b>Deficit on the provision of services</b>	<b>76,652</b>	<b>68,751</b>	<b>7,901</b>	<b>77,886</b>	<b>70,439</b>	<b>7,447</b>	
<b>Other comprehensive income and expenditure</b>							
Net (gains) / losses on revaluation of Property, Plant & Equipment	188	0	188	0	184	(184)	14
Actuarial losses on pension fund assets and liabilities	10,900	0	10,900	5,380	0	5,380	12
<b>Total comprehensive income and expenditure</b>	<b>87,740</b>	<b>68,751</b>	<b>18,989</b>	<b>83,266</b>	<b>70,623</b>	<b>12,643</b>	

## MOVEMENT IN RESERVES STATEMENT YEAR ENDED 31 MARCH 2013

This statement shows the movement in the year on the different reserves held by the Council, analysed into "usable reserves" and "unusable reserves".

The 'Deficit on the Provision of Services' line shows the true economic cost of providing the Council's services. This is different from the statutory amounts required to be charged to the General Fund balance for Council Tax setting. The reconciliation between the true economic cost and the balances for Council Tax setting are shown in more detail in note 5.

	General Fund Balance £'000	Earmarked Reserves £'000	Capital Receipts Reserve £'000	Total Usable Reserves £'000	Unusable Reserves £'000	Total Authority Reserves £'000	Note
<b><u>Movements during 2011/12</u></b>							
<b>Balance as at 31st March 2011</b>	2,000	9,510	37,628	49,138	104,333	153,471	
Deficit on the Provision of Services	(7,901)	0	0	(7,901)	0	(7,901)	
Other Comprehensive Income & Expenditure	0	0	0	0	(11,088)	(11,088)	
<b>Total Comprehensive Income &amp; Expenditure</b>	<b>(7,901)</b>	<b>0</b>	<b>0</b>	<b>(7,901)</b>	<b>(11,088)</b>	<b>(18,989)</b>	
Adjustments between accounting basis and funding basis under regulations	9,064	0	(1,780)	7,284	(7,284)	0	5
<b>Net increase before transfers to earmarked reserves</b>	<b>1,163</b>	<b>0</b>	<b>(1,780)</b>	<b>(617)</b>	<b>(18,372)</b>	<b>(18,989)</b>	
Transfers (to) / from earmarked reserves	(1,163)	1,163	0	0	0	0	
<b>Increase / (Decrease) in Year</b>	<b>(0)</b>	<b>1,163</b>	<b>(1,780)</b>	<b>(617)</b>	<b>(18,372)</b>	<b>(18,989)</b>	
<b>Balance as at 31st March 2012</b>	<b>2,000</b>	<b>10,673</b>	<b>35,848</b>	<b>48,521</b>	<b>85,961</b>	<b>134,482</b>	
<b><u>Movements during 2012/13</u></b>							
Deficit on the Provision of Services	(7,447)	0	0	(7,447)	0	(7,447)	
Other Comprehensive Income & Expenditure	0	0	0	0	(5,196)	(5,196)	
<b>Total Comprehensive Income &amp; Expenditure</b>	<b>(7,447)</b>	<b>0</b>	<b>0</b>	<b>(7,447)</b>	<b>(5,196)</b>	<b>(12,643)</b>	
Adjustments between accounting basis and funding basis under regulations	8,423	0	(1,499)	6,924	(6,924)	0	5
<b>Net increase before transfers to earmarked reserves</b>	<b>976</b>	<b>0</b>	<b>(1,499)</b>	<b>(523)</b>	<b>(12,120)</b>	<b>(12,643)</b>	
Transfers (to) / from earmarked reserves	(976)	976	0	0	0	0	
<b>Increase / (Decrease) in Year</b>	<b>(0)</b>	<b>976</b>	<b>(1,499)</b>	<b>(523)</b>	<b>(12,120)</b>	<b>(12,643)</b>	
<b>Balance as at 31st March 2013</b>	<b>2,000</b>	<b>11,649</b>	<b>34,349</b>	<b>47,998</b>	<b>73,841</b>	<b>121,839</b>	

## BALANCE SHEET AS AT 31 MARCH 2013

The Balance Sheet summarises the position of the Council's assets and liabilities as at the Balance Sheet date. The net assets are matched by a combination of usable and unusable reserves. These are shown in more detail in notes 24 and 25.

	2011/12		2012/13		Note
	£'000	£'000	£'000	£'000	
Land & Buildings	57,094		56,954		14
Vehicles, Plant & Equipment	2,189		2,177		14
Community Assets	3,092		3,267		14
Infrastructure Assets	640		710		14
<b>Property, Plant &amp; Equipment (PPE)</b>		63,015		63,108	
<b>Investment Properties</b>		72,823		67,087	15
<b>Intangible Assets</b>		828		793	16
Long-Term Debtors	18		17		
<b>Long-Term Assets</b>		18		17	
Cash and Cash Equivalents	1,889		12,106		20
Short-Term Investments	50,490		40,041		27
Inventories	171		189		
Debtors	7,396		7,191		21
Less: Bad Debt Allowance	(1,400)		(1,474)		21
<b>Current Assets</b>		58,546		58,053	
Creditors	(9,494)		(9,472)		22
<b>Current Liabilities</b>		(9,494)		(9,472)	
<b>Total Assets less Current Liabilities</b>		<b>185,736</b>		<b>179,586</b>	
Creditors due after more than one year	154		77		13
Liability to Pension Fund	51,100		57,670		12
		(51,254)		(57,747)	
<b>Total Assets Less Liabilities</b>		<b>134,482</b>		<b>121,839</b>	
<b>Usable Reserves</b>					
General Fund Balance	2,000		2,000		24
Revenue and Earmarked Reserves	10,673		11,649		24
Capital Receipts Reserve	35,848		34,349		24
<b>Total Usable Reserves</b>		<b>48,521</b>		<b>47,998</b>	
<b>Unusable Reserves</b>					
Revaluation Reserve	19,203		19,151		25
Capital Adjustment Account	117,886		112,361		25
Deferred Credits	8		7		25
Collection Fund Adjustment Account	174		174		25
Accumulated Absences Account	(210)		(182)		25
Pension Fund Reserve	(51,100)		(57,670)		12, 25
<b>Total Unusable Reserves</b>		<b>85,961</b>		<b>73,841</b>	
<b>Total Equity</b>		<b>134,482</b>		<b>121,839</b>	

## CASH FLOW STATEMENT YEAR ENDED 31 MARCH 2013

This statement summarises the movements in the Council's cash transactions. It shows the volume of financial activity that takes place between the Council and its stakeholders.

The Cash Flow Statement is different to the other statements because it is on a cash basis and some of the figures may not agree with other figures in the accounts which are all on an accruals basis (i.e. based on amounts payable and receivable rather than actually paid or received).

The bottom section of the statement shows a reconciliation of the movement in Cash and Cash Equivalents in the year to the figures shown in the Balance Sheet.

	2011/12		2012/13		Note
	£'000	£'000	£'000	£'000	
<b>Revenue Activities</b>					
Net deficit on the provision of services		(7,901)		(7,447)	
<b>Adjustments for non-cash transactions</b>					
Depreciation of PPE / Amortisation of intangibles	1,814		1,928		14,16
Revaluation Losses on Investment Properties	5,977		5,454		15
Impairment & Downward Valuations of PPE	1,049		64		14
Pension Fund Transfers	760		1,190		12
Other non-cash items	(1)		(42)		
		9,599		8,594	
<b>Adjustments in respect of Financing Transactions</b>		0		(619)	
<b>Adjustments in respect of Investing Activities</b>		(645)		812	
<b>Adjustments for items on an accruals basis</b>					
Increase in Debtors	(1,017)		(733)		
Increase in Inventories	(11)		(18)		
(Decrease) / Increase in Creditors	473		(22)		
		(555)		(773)	
<b>Net Cash Inflow from Operating Activities</b>		<b>498</b>		<b>567</b>	
<b>Investing Activities</b>					
Net (increase) / decrease in non-property investments	(8,278)		10,449		
Interest Received	532		824		
Interest Paid	(17)		(15)		
Purchase of Assets	(2,745)		(1,805)		
Sale of Assets	625		438		
Other Capital Cash Received	632		723		
<b>Net Investing Activity Cashflow</b>		<b>(9,251)</b>		<b>10,614</b>	
<b>Financing Activities</b>					
Cash payments to reduce outstanding finance	(113)		(101)		
Other income / (payments) for financing activities	2,435		(863)		
		<b>2,322</b>		<b>(964)</b>	
<b>Net Increase / (Decrease) in Cash and Cash Equivalents</b>		<b>(6,431)</b>		<b>10,217</b>	
<b>Cash and Cash Equivalents at the start of the reporting period</b>		<b>8,320</b>		<b>1,889</b>	
<b>Cash and Cash Equivalents at the end of the reporting period</b>		<b>1,889</b>		<b>12,106</b>	

# NOTES TO THE CORE FINANCIAL STATEMENTS

## INDEX

1. Accounting Policies
2. Accounting Standards that have been issued but have not yet been adopted
3. Critical Judgements in Applying Accounting Policies
4. Assumptions made about the future and other major sources of estimation uncertainty
5. Adjustments between accounting basis and funding basis under regulation
6. Amounts reported for resource allocation decisions
7. Taxation and Non-Specific Grant Income
8. Special Expenses
9. External Audit Costs
10. Members' Allowances
11. Officers' Remuneration and Termination Benefits
12. Defined Benefit Pension Scheme
13. Leases
14. Property, Plant & Equipment
15. Investment Properties
16. Intangible Assets
17. Heritage Assets
18. Profit / Loss on Disposal of Assets
19. Capital Expenditure and Financing
20. Cash and Cash Equivalents
21. Analysis of Debtors
22. Analysis of Creditors
23. Trust Funds
24. Usable Reserves
25. Unusable Reserves
26. Net Assets Employed
27. Financial Instruments
28. Nature and Extent of Risks Arising from Financial Instruments
29. Related Party Transactions
30. Group Accounts
31. Contingent Assets
32. Contingent Liabilities
33. Events after the Balance Sheet Date
34. Date Accounts Authorised for Issue

## NOTES TO THE FINANCIAL STATEMENTS

### 1. Accounting Policies

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

### 1.2. **General Principles**

The Statement of Accounts summarises the Council's transactions for the 2012/13 financial year and its position at the year-end of 31 March 2013. The Council is required to prepare an annual Statement of Accounts (by the Accounts and Audit regulations 2011) in accordance with proper accounting practices.

These practices primarily comprise; the Code of Practice on Local Authority Accounting in the United Kingdom 2012/13 and the Service Reporting Code of Practice 2012/13 supported by International Financial Reporting Standards (IFRS) and statutory guidance.

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

### 1.3. **Accruals of Income & Expenditure**

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

- Fees, charges and rents due from customers and income from the provision of services are accounted for as income at the date the Council provides the relevant goods or services; i.e. when it is probable that the economic benefits associated with the transaction will flow to the Council.
- Supplies 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 provided are recorded as expenditure when the services are received rather than when payments are made.
- Interest payable on borrowings and receivable on investments is accounted for on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.
- Where income and expenditure has been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Small amounts outstanding at the year-end are treated on a payments basis. In total, these do not have a material effect on the year's accounts. Where it is doubtful that debts will be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.
- Income and expenditure are credited and debited to the relevant service revenue account, unless they properly represent capital receipts or capital expenditure.



#### 1.4. **Cash and Cash Equivalents**

Cash is represented by cash in hand.

Cash equivalents are deposits with financial institutions payable without penalty or notice, maturing in not more than one day and are readily convertible to known amounts of cash with insignificant risk of change in value.

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

#### 1.5. **Contingent Liabilities and Contingent Assets**

##### Contingent Liabilities

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

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

##### Contingent Assets

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

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

#### 1.6. **Reserves**

The Council sets aside specific and general amounts as reserves for future 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 revenue account in that year to be included in the surplus / deficit on the provision of services in the Comprehensive Income & Expenditure Statement. The reserve is then appropriated back in to the General Fund Balance in the Movement in Reserves Statement so that there is no net charge against Council Tax for the expenditure.

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

#### 1.7. **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 Council when there is reasonable assurance that;

- the Council will comply with the conditions attached to the payments and
- the grants / contributions will be received.

Amounts recognised as due to the Council are not credited to the Comprehensive Income & Expenditure Statement until conditions attached to the grant / 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 / contribution are required to be consumed by the Council as specified, or future economic benefits or service potential must be returned to the transferor.

Monies advanced as grants / contributions for which conditions have not been satisfied are carried in the Balance Sheet as creditors.

When conditions are satisfied, the grant / contribution is credited to the relevant Service line or Taxation and Non-Specific Grant income in the Comprehensive Income & Expenditure Statement.

Where capital grants are credited to the Comprehensive Income & Expenditure Statement, they are reversed out of the General Fund Balance in the Movement in Reserves Statement. When the grant has been applied, it is posted to the Capital Adjustment Account.

## 1.8. **Employee Benefits**

### Benefits Payable During Employment

Short-term employee benefits are those due to be settled within twelve 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 (e.g. cars) for current employees and are recognised as an expense for services in the year in which employees render service to the Council.

An accrual is made for the cost of holiday entitlement and accrued flexible working hours (based on a sample of services) 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 the 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 that the absence occurs.

### Termination Benefits

Termination benefits are amounts payable as a result of a decision by the Council to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy and are charged on an accruals basis to the appropriate service line in the net cost of services in the Comprehensive Income & Expenditure Statement.

### Post-Employment Benefits

The Council's employees are entitled to join the Local Government Pension Scheme administered by Hampshire County Council. This scheme provides defined benefits to members (retirement lump sums and pensions) earned as employees work for the Council.

The liabilities of the pension fund attributable to the Council are included in the Balance Sheet based on an actuarial valuation.

Full details of the valuation method are shown in note 12 to the core financial statements.

In relation to retirement benefits, statutory provisions require the General Fund Balance to be charged with the amount payable by the Council to the pension fund or directly to pensioners in the year, not the amount calculated according to the relevant standards. In the Movement in Reserves Statement, this means that there are appropriations to and from the Pension Reserve to remove notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund and pensioners. The negative balance that arises on the Pension 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.

The Council has limited powers to award discretionary benefits in the event of early retirements. Any liabilities estimated to arise as a result of any such decision are accrued in the year the decision was made and are accounted for using the same policies as are applied to the rest of the pension scheme.

#### **1.9. 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 end of 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.

#### **1.10. VAT**

Income and expenditure excludes any amounts related to VAT to the extent that it is recoverable from HM Revenue & Customs.

#### **1.11. Overheads and Support Services**

The cost of overheads and support services are charged to those that benefit from the supply of the service in accordance with the costing principles of CIPFA's *Service Reporting Code of Practice 2012/13* (SerCOP) with the exception of:

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

These two cost categories are defined in SerCOP and accounted for as separate headings in the Comprehensive Income & Expenditure Statement as part of the net cost of services.

### 1.12. **Intangible Assets**

Expenditure on non-monetary assets that do not have physical substance but are controlled by the Council (e.g. software licences) is capitalised when it is expected that the future economic benefits will flow to the Council.

Intangible assets are measured initially at cost. The balance is amortised over the useful life of the asset to the relevant service line in the Comprehensive Income & Expenditure Statement to reflect the pattern of consumption of benefits.

Amortisation is not permitted to have an impact on the General Fund Balance. Amortisation charges are reversed out of the General Fund balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account.

### 1.13. **Investment Property**

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

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

Rentals received in respect of leases on investment properties are credited to the financing and investment income line and result in a gain for the General Fund balance. However, revaluation and disposal gains / losses are not permitted to have an impact on the General Fund balance. The gains / losses are therefore reversed out of the General Fund balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and (for sale proceeds) the Capital Receipts Reserve.

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

Assets that have physical substance and are held for use in the provision of services, for rental to others or for administrative purposes on a continuing basis are classified as property, plant and equipment (PPE).

#### Recognition

Expenditure on the acquisition, creation or enhancement of PPE is capitalised on an accruals basis, provided that it is probable that the future economic benefits or service potential associated with the item will flow to the Council and the cost of the item can be measured reliably.

Expenditure that secures but does not add to an asset's potential to deliver future economic benefits (e.g. repairs and maintenance) is charged as an expense when it is incurred.

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

## Measurement

Assets are initially measured at cost, comprising:

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

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

- infrastructure and community assets – 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) in an arm's length transaction.

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

Where non-property assets 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. (Exceptionally, gains might be credited to the Comprehensive Income & Expenditure Statement where they arise from the reversal of a loss previously charged to a service.)

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

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

The Revaluation Reserve contains revaluation gains recognised since 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 lines in the Comprehensive Income & Expenditure Statement.

Where an impairment loss is reversed subsequently, the reversal is credited to relevant service lines in the Comprehensive Income & Expenditure Statement, up to the amount of the original loss, adjusted for depreciation that would be charged if the loss had not been recognised.

### Disposals

When an asset is disposed of or decommissioned, the carrying amount of the asset in the Balance Sheet is written off to Other Operating Expenditure line in the Comprehensive Income & 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 & 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.

### Depreciation

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

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

Componentisation of an asset will be considered where:

- The carrying value of an asset is greater than £1M and
- The component is at least 20% of the carrying value of the asset and
- The change in depreciation after componentisation is greater than £10,000 per annum.

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.

## **1.15. Heritage Assets**

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

The Council does not have a policy in respect of the purchase, preservation, management and disposal of Heritage Assets.

Heritage assets are either excluded from the Balance Sheet or included within Community Assets, valued at historic cost. The Code requires Heritage Assets to be classified separately on the Balance Sheet and to be valued at fair value. The Council has not re-stated Heritage Assets in accordance with the Code due to their immaterial overall value. The impact of this is explained in note 17.

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

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

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

The Council is not required to raise Council Tax to cover depreciation, impairment losses, revaluation or amortisation. Depreciation, impairment losses, revaluation and amortisation are therefore replaced in the General Fund Balance by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserve Statement.

#### **1.17. 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 & Expenditure Statement in the year. Where the Council has determined to meet the cost of these charges from existing capital resources, 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 there is no impact on the level of Council Tax.

#### **1.18. 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.

##### Criteria for determining whether a lease is finance or operating in nature

A number of factors are considered in determining whether a lease should be classified as finance or operating. Three of these are over-riding, the remainder are considered holistically to assess the nature of a lease.

Leases of land will be considered operating leases unless the land will be permanently impaired as a result of the lease (e.g. the land is used for mining).

Where it is almost certain that the lessee will retain the asset in perpetuity, (e.g. where the Council leases wheeled bins) the lease will be classified as a finance lease.

Where the Council leases a building to a tenant, the building element of the lease will be considered to be operating in nature if the lessee is required to return the building in a repaired condition at the end of the lease.

Factors that indicate a lease might be a finance lease include:

- Where the net present value of lease payments is more than 80% of the asset's purchase price.
- Where the lease period is longer than 75% of the asset's useful life.
- Where there are options to extend the primary lease at rates substantially lower than market rents.
- Where ownership transfers to the lessor at the end of the lease or there are options to buy the asset at the end of the lease term on favourable conditions which are reasonably certain to be taken up.
- Terms included in the lease which penalise the lessee more than the lessor in the event that the lessee cancels the lease.

#### Council as Lessee – Finance Leases

Assets held under finance leases are recognised on the Balance Sheet at the commencement of the lease at 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 Council are added to the carrying amount of the asset.

Lease payments are apportioned between;

- a charge for the acquisition of the interest in the asset – 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 & Expenditure Statement).

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

The Council 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, 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.

#### Council as Lessee – Operating Leases

Rentals paid under operating leases are charged to the Comprehensive Income & Expenditure Statement as an expense of the services benefitting from the use of leased assets. 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).



### Council as Lessor – Finance Leases

There are no leases that qualify as finance leases where the Council is the lessor.

### Council as Lessor – Operating Leases

Where the Council grants an operating lease over an asset, the asset is retained in the Balance Sheet. Rental income is credited to the Other Operating Expenditure line in the Comprehensive Income & 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.

## **1.19. Financial Instruments**

### Financial Liabilities

Financial liabilities are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured at their fair value. They are subsequently measured at their amortised cost. Annual charges to the financing and investment income and expenditure line in the Comprehensive Income & Expenditure Statement for interest payable are based on the carrying amount of a liability, multiplied by the effective interest rate for the instrument.

In most cases the amount presented in the Balance Sheet is the outstanding principal repayable and interest charged to the Comprehensive Income & Expenditure Statement is the amount payable for the year.

### Financial Assets

Financial Assets are divided into two categories; Loans & Receivables and Available for Sale assets. The Council has no Available for Sale Financial Assets.

Loans and receivables (e.g. cash investments) are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured at their 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 & Expenditure Statement for interest receivable are based on the carrying amount of the asset multiplied by the effective interest rate for the instrument. For most of the loans that the Council has made, this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the Comprehensive Income & Expenditure Statement is the amount receivable for the year in the loan agreement.

## **1.20. Inventories and Long-Term Contracts**

Inventories are included in the Balance Sheet at the lower of cost or net realisable value.

Long term contracts are accounted for on the basis of charging the surplus or deficit on the provision of services with the value of works and services received under the contract during the year.

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

The Code requires the Council to identify Accounting Standards that have been issued but have yet to be adopted. The Council is also required to assess the possible impact that application of the Standards will have when they are applied. The nature and potential impact on the Council of these Standards is shown below.

IAS1 (Presentation of Financial Statements) has been amended in respect of the definition of Other Comprehensive Income. This change intends to make clearer the potential effects that income in one year might have on future years' accounts. This is a presentational change only.

IAS19 (Post-Employment Benefits) has been amended in a number of ways with many of the new requirements already incorporated into the Council's accounts. In summary the main changes are:

- Termination benefits are to be recognised only when the Council cannot withdraw from a termination (this was previously based on when the Council was demonstrably committed to the termination).
- Increases in pension assets to be valued at AAA bond rates rather than projected investment returns.
- Some changes to the presentation of movements in the net pension liability in the CI&ES.

IFRS13 (Fair Value Measurement) has been prepared to provide consistent guidance on defining and measuring fair value for all relevant balances and transactions. The quality of information used to measure fair value will have to be disclosed in order that a reader of the accounts can assess the reliability of the measurement of fair value.

## 3. Critical Judgements in Applying Accounting Policies

In applying the accounting policies set out in Note 1, the Council has had to make certain judgements about complex transactions or those involving uncertainty about future events.

The critical judgements that have the most significant effect on the amounts in the financial statements are:

**Asset classifications** – the Council has made judgements on whether assets are classified as Investment Property or PPE. 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 PPE assets whereas if full market rent is being charged this would indicate that the asset is an Investment Property. The classification determines the valuation method to be used.

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

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

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

**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 concerning future and past events and the Council’s control over them.

**Doubtful debts allowances** – the Council has made judgements about the level of doubtful debts that it needs to provide for. These judgments are based on historical experience of debtor defaults adjusted for the current economic climate.

**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 Council about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates.

The items in the Council’s Balance Sheet at 31<sup>st</sup> March 2013 for which there is a significant risk of material adjustment in the forthcoming financial year are explained in the table below.

<b>Item</b>	<b>Uncertainties</b>	<b>Effect if actual results differ from assumptions</b>
Property, Plant & Equipment	Assets are depreciated over useful lives that are dependent on assumptions about the service being delivered by them and the level of repairs and maintenance that will be invested in them.	If the useful life of assets is reduced, depreciation increases resulting in a fall in the carrying value of assets. It is estimated that the annual depreciation charge for buildings would increase by £26,000 for every year that useful lives had to be reduced.
Bad Debt Allowance	The Council has made allowances for doubtful debts of £1.474M in 2012/13 (2011/12 £1.400M) based on what it believes to be a prudent but realistic level.	If collection rates were to deteriorate or improve, a 5% change would require an adjustment to the allowance of £73,700 (2011/12 £70,000).
Pension Liability	Estimation of the net liability to pay pensions depends on a number of complex judgments relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns from pension fund assets. A firm of actuaries is engaged by the pension fund administrator to provide expert advice about the assumptions to be applied.	The effect of the net pension liability on changes in individual assumptions can be measured. For instance, a 0.5% increase in the discount rate assumption would result in a decrease in pension liability of £10.02M. However, the assumptions interact in complex ways. During 2012/13, the Council’s actuaries advised that the net pension liability had decreased by £190,000 due to estimates being corrected as a result of experience and increased by £10.58M attributable to the updating of assumptions.

## 5. Adjustments between accounting basis and funding basis under regulation

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

### Transactions in 2012/13

	<b>General Fund Balance £'000</b>	<b>Capital Receipts Reserve £'000</b>	<b>Total Usable Reserves £'000</b>	<b>Unusable Reserves £'000</b>	<b>Note</b>
<b>Adjustments primarily involving the Capital Adjustment Account</b>					
Depreciation of non-current assets	1,826	0	<b>1,826</b>	(1,826)	14
Amortisation of intangible assets	102	0	<b>102</b>	(102)	16
Impairment of non-current assets	64	0	<b>64</b>	(64)	14
Movement in the fair value of investment property	5,454	0	<b>5,454</b>	(5,454)	15
Profit on disposal of non-current assets	(90)	0	<b>(90)</b>	90	18
Revenue expenditure funded from capital under statute	1,136	(1,136)	<b>0</b>	0	
<b>Adjustments primarily involving the Capital Receipts Reserve</b>					
Proceeds from disposal of non-current assets		498	<b>498</b>	(498)	24
Financing of new capital expenditure	(1,233)	(760)	<b>(1,993)</b>	1,993	19
<b>Adjustments primarily involving the Pensions Reserve</b>					
Reversal of items relating to retirement benefits charged to the CI&ES	3,110	0	<b>3,110</b>	(3,110)	12
Employer's contribution to pension fund / directly to pensioners	(1,920)	0	<b>(1,920)</b>	1,920	12
<b>Adjustments primarily involving the Accumulated Absences Account</b>					
Amount by which officer remuneration charged to the CI&ES on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements.	(28)	0	<b>(28)</b>	28	25
<b>Insertion of items not shown in the Comprehensive Income &amp; Expenditure Statement</b>					
Voluntary provision for repayment of finance leases	0	(101)	<b>(101)</b>	101	
Other adjustments	2	0	<b>2</b>	(2)	
	<b>8,423</b>	<b>(1,499)</b>	<b>6,924</b>	<b>(6,924)</b>	

## Comparative Transactions for 2011/12

	<b>General Fund Balance £'000</b>	<b>Capital Receipts Reserve £'000</b>	<b>Total Usable Reserves £'000</b>	<b>Unusable Reserves £'000</b>	<b>Note</b>
<b>Adjustments primarily involving the Capital Adjustment Account</b>					
Depreciation of non-current assets	1,712	0	<b>1,712</b>	(1,712)	14
Amortisation of intangible assets	102	0	<b>102</b>	(102)	16
Impairment of non-current assets	1,049	0	<b>1,049</b>	(1,049)	14
Movement in the fair value of investment property	5,977	0	<b>5,977</b>	(5,977)	15
Loss on disposal of non-current assets	318	0	<b>318</b>	(318)	18
Revenue expenditure funded from capital under statute	616	(616)	<b>0</b>	0	
<b>Adjustments primarily involving the Capital Receipts Reserve</b>					
Proceeds from disposal of non-current assets	0	405	<b>405</b>	(405)	24
Financing of new capital expenditure	(1,375)	(1,456)	<b>(2,831)</b>	2,831	24
<b>Adjustments primarily involving the Pensions Reserve</b>					
Reversal of items relating to retirement benefits charged to the CI&ES	2,680	0	<b>2,680</b>	(2,680)	12
Employer's contribution to pension fund / directly to pensioners	(1,920)	0	<b>(1,920)</b>	1,920	12
<b>Adjustments primarily involving the Collection Fund Adjustment Account</b>					
Amount by which Council Tax income credited to the CI&ES is different from Council Tax income calculated for the year in accordance with statutory requirements.	(55)	0	<b>(55)</b>	55	25
<b>Adjustments primarily involving the Accumulated Absences Account</b>					
Amount by which officer remuneration charged to the CI&ES on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements.	(38)	0	<b>(38)</b>	38	25
<b>Insertion of items not shown in the Comprehensive Income &amp; Expenditure Statement</b>					
Voluntary provision for repayment of finance leases	0	(113)	<b>(113)</b>	113	
Other adjustments	(2)	0	<b>(2)</b>	2	
	<b>9,064</b>	<b>(1,780)</b>	<b>7,284</b>	<b>(7,284)</b>	

### **6. Amounts reported for resource allocation decisions**

The purpose of this note is to reconcile the financial information reported internally to that reported in the Comprehensive Income & Expenditure Statement.

The analysis of income and expenditure on the face of the Comprehensive Income & Expenditure Statement (page 9) is that specified by the *Service Accounting Code of*

*Practice.* However, decisions about resource allocation are taken by the Council's Cabinet on the basis of budget reports analysed by Service. The most significant differences between these reports are:

- Income earned from the Council's property portfolio is shown as a service income in the Estates & Economic Development Service when reporting to Cabinet; however it is shown separately in the Comprehensive Income & Expenditure Statement as part of Financing and Investment Income & Expenditure.
- The Housing & Environmental Health Service outturn figure for 2012/13 included Disabled Facility Grants of £496,000. On the Comprehensive Income & Expenditure Statement this is shown as a capital grant received.

The tables below reconcile the revenue outturn report presented to Cabinet on 19<sup>th</sup> June 2013 to the net cost of services shown in the Comprehensive Income & Expenditure Statement.

Year ended 31st March 2013	Comm. & Leisure £'000	Environmental Service £'000	Estates & Economic Dev't £'000	Housing, & Env. Health £'000	Planning & Building £'000	Planning Policy & Transport £'000	Revenues & Benefits £'000	Corporate & Support Services £'000	Total £'000
Fees, Charges and Other Service Income	1,605	2,817	8,393	1,741	1,489	3,338	2,058	5,793	27,234
Government Grants	0	0	0	88	0	0	35,698	14	35,800
<b>Total Income</b>	<b>1,605</b>	<b>2,817</b>	<b>8,393</b>	<b>1,829</b>	<b>1,489</b>	<b>3,338</b>	<b>37,756</b>	<b>5,807</b>	<b>63,034</b>
Employee Expenses	1,241	3,371	1,102	1,620	1,645	1,370	1,952	3,446	15,747
Other Operating Expenses	2,298	2,865	2,379	569	293	1,274	35,950	2,180	47,808
Support Service Recharges	718	542	715	1,466	876	591	696	3,594	9,198
Impairment Costs	0	0	65	0	0	0	0	0	65
Capital Charges to Revenue	869	459	308	1,621	0	40	50	184	3,531
<b>Total Expenditure</b>	<b>5,126</b>	<b>7,237</b>	<b>4,569</b>	<b>5,276</b>	<b>2,814</b>	<b>3,275</b>	<b>38,648</b>	<b>9,404</b>	<b>76,349</b>
<b>Net Cost of Services</b>	<b>3,521</b>	<b>4,420</b>	<b>(3,824)</b>	<b>3,447</b>	<b>1,325</b>	<b>(63)</b>	<b>892</b>	<b>3,597</b>	<b>13,315</b>

Year ended 31st March 2012	Comm. & Leisure £'000	Environmental Service £'000	Estates & Economic Dev't £'000	Housing, & Env. Health £'000	Planning & Building £'000	Planning Policy & Transport £'000	Revenues & Benefits £'000	Corporate & Support Services £'000	Total £'000
Fees, Charges and Other Service Income	1,421	2,119	8,505	1,340	1,372	3,387	2,128	5,607	25,879
Government Grants	0	0	0	580	0	0	33,318	0	33,898
<b>Total Income</b>	<b>1,421</b>	<b>2,119</b>	<b>8,505</b>	<b>1,920</b>	<b>1,372</b>	<b>3,387</b>	<b>35,446</b>	<b>5,607</b>	<b>59,777</b>
Employee Expenses	1,287	3,371	1,076	1,559	1,587	1,336	1,881	3,393	15,490
Other Operating Expenses	2,520	2,361	2,336	551	401	1,203	33,651	2,248	45,271
Support Service Recharges	678	538	696	1,432	977	556	594	3,380	8,851
Impairment Costs	0	0	443	(32)	0	638	0	0	1,049
Capital Charges to Revenue	856	467	276	1,157	0	47	50	140	2,993
<b>Total Expenditure</b>	<b>5,341</b>	<b>6,737</b>	<b>4,827</b>	<b>4,667</b>	<b>2,965</b>	<b>3,780</b>	<b>36,176</b>	<b>9,161</b>	<b>73,654</b>
<b>Net Cost of Services</b>	<b>3,920</b>	<b>4,618</b>	<b>(3,678)</b>	<b>2,747</b>	<b>1,593</b>	<b>393</b>	<b>730</b>	<b>3,554</b>	<b>13,877</b>

The following table reconciles the net cost of services identified above to the net cost of services shown in the Comprehensive Income & Expenditure Statement.

	2011/12 £'000	2012/13 £'000
<b>Cost of Services in Expenditure Analysis</b>	<b>13,877</b>	<b>13,315</b>
Amounts not reported to management	(248)	252
Amounts reported to management but not included in the CI&ES.	5,531	5,688
<b>Cost of Services in the CI&amp;ES</b>	<b>19,160</b>	<b>19,255</b>

The two analysis lines above are analysed in the following tables.

Reconciliation to Subjective Analysis - 2012/13	Service Analysis £'000	Not Reported to Management £'000	Not Included in CI&ES £'000	Net Cost of Services £'000	Corporate and Financing Amounts £'000	Total £'000
Fees, Charges and Other Service Income	27,234	(223)	(5,653)	21,358	5,653	27,011
Interest and Investment Income	0	0	0	0	634	634
Return on Pension Fund Assets	0	0	0	0	3,950	3,950
Changes in Fair Value of Investment Properties	0	0	0	0	(5,454)	(5,454)
Income from Council Tax	0	0	0	0	7,106	7,106
Government Grants	35,800	0	(497)	35,303	6,711	42,014
<b>Total Income</b>	<b>63,034</b>	<b>(223)</b>	<b>(6,150)</b>	<b>56,661</b>	<b>18,600</b>	<b>75,261</b>
Employee Expenses	15,747	(28)	(26)	15,693	26	15,719
Other Operating Expenses	47,808	28	(329)	47,507	329	47,836
Support Service Recharges	9,198	0	(107)	9,091	107	9,198
Impairment Costs	65	0	0	65	0	65
Capital Charges to Revenue	3,531	29	0	3,560	0	3,560
Interest Payable	0	0	0	0	15	15
Precepts	0	0	0	0	1,085	1,085
Pension Fund Interest	0	0	0	0	5,320	5,320
Gain on disposal of assets	0	0	0	0	(90)	(90)
<b>Total Operating Expenses</b>	<b>76,349</b>	<b>29</b>	<b>(462)</b>	<b>75,916</b>	<b>6,792</b>	<b>82,708</b>
<b>Deficit on the Provision of Services</b>	<b>13,315</b>	<b>252</b>	<b>5,688</b>	<b>19,255</b>	<b>(11,808)</b>	<b>7,447</b>

<b>Reconciliation to Subjective Analysis - 2011/12</b>	<b>Service Analysis</b>	<b>Not Reported to Management</b>	<b>Not Included in CI&amp;ES</b>	<b>Net Cost of Services</b>	<b>Corporate and Financing Amounts</b>	<b>Total</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Fees, Charges and Other Service Income	25,879	210	(5,931)	20,158	5,931	26,089
Interest and Investment Income	0	0	0	0	772	772
Return on Pension Fund Assets	0	0	0	0	4,250	4,250
Changes in Fair Value of Investment Properties	0	0	0	0	(5,977)	(5,977)
Income from Council Tax	0	0	0	0	7,050	7,050
Government Grants	33,898	0	0	33,898	6,517	40,415
<b>Total Income</b>	<b>59,777</b>	<b>210</b>	<b>(5,931)</b>	<b>54,056</b>	<b>18,543</b>	<b>72,599</b>
Employee Expenses	15,490	(38)	(25)	15,427	25	15,452
Other Operating Expenses	45,271	0	(270)	45,001	270	45,271
Support Service Recharges	8,851	0	(105)	8,746	105	8,851
Impairment Costs	1,049	0	0	1,049	0	1,049
Capital Charges to Revenue	2,993	0	0	2,993	0	2,993
Interest Payable	0	0	0	0	17	17
Precepts	0	0	0	0	1,069	1,069
Pension Fund Interest	0	0	0	0	5,480	5,480
Loss on disposal of assets	0	0	0	0	318	318
<b>Total Operating Expenses</b>	<b>73,654</b>	<b>(38)</b>	<b>(400)</b>	<b>73,216</b>	<b>7,284</b>	<b>80,500</b>
<b>Deficit on the Provision of Services</b>	<b>13,877</b>	<b>(248)</b>	<b>5,531</b>	<b>19,160</b>	<b>(11,259)</b>	<b>7,901</b>

## 7. Taxation and Non-Specific Grant Income

The Council received income from Council Tax and revenue grants from various Government departments in the year. These are summarised in the table below.

<b>Taxation / Non-Ringfenced Grants</b>	<b>Awarding Body</b>	<b>2011/12</b>	<b>2012/13</b>
		<b>£'000</b>	<b>£'000</b>
Council Tax Income	Council Taxpayers	5,981	6,021
Revenue Support Grant	Dep't for Communities & Local Government	1,341	96
Business Rates Re-Distribution	Dep't for Communities & Local Government	4,340	4,946
New Homes' Bonus	Dep't for Communities & Local Government	480	799
Council Tax Freeze Grant	Dep't for Communities & Local Government	148	148
		<b>12,290</b>	<b>12,010</b>



<b>Capital Grants and Contributions</b>		<b>2011/12 £'000</b>	<b>2012/13 £'000</b>
Disabled Facilities Grant	Dep't for Communities & Local Government	0	496
Contributions under s106 agreements / capital grants	Developers	208	226
		<b>208</b>	<b>722</b>

<b>Specific Grants included in the Net Cost of Services</b>	<b>Awarding Body</b>	<b>2011/12 £'000</b>	<b>2012/13 £'000</b>
Housing & Council Tax Benefit Subsidy	Dep't for Work & Pensions	32,448	34,800
Housing & Council Tax Administration Grant	Dep't for Work & Pensions	592	564
Benefits' Caseload Grant	Dep't for Work & Pensions	60	34
Discretionary Housing Payments	Dep't for Work & Pensions	31	33
Housing Benefit Transition Grant	Dep't for Work & Pensions	8	0
Council Tax Reform New Burden Grant	Dep't for Communities & Local Government	0	84
Business Rates Collection	Dep't for Communities & Local Government	179	183
Community Right to Buy	Dep't for Communities & Local Government	0	5
Community Right to Challenge	Dep't for Communities & Local Government	0	9
Housing Needs - Homelessness	Dep't for Communities & Local Government	118	88
Disabled Facilities Grant	Dep't for Communities & Local Government	462	0
		<b>33,898</b>	<b>35,800</b>

The Disabled Facilities Grant awarded by the Department of Communities and Local Government was treated as a revenue grant in 2011/12. Guidance for 2012/13 suggests this grant should now be treated as a capital grant. As a result the grants in respect of 2011/12 and 2012/13 are shown in different lines on the Comprehensive Income & Expenditure Statement and the notes to the accounts.

#### **8. Special Expenses**

Income from the special Council Tax Levy which applies in the Andover Town Council area was £319,900 in 2012/13 (£317,100 – 2011/12).

**9. External Audit Costs**

In 2012/13 Test Valley Borough Council incurred the following fees in relation to external audit and inspection.

<b>Class of Work</b>	<b>2011/12 £'000</b>	<b>2012/13 £'000</b>
External Audit Fees	116	69
District Council Rebate	(9)	(6)
Certification of Grants Claim and Returns - 2010/11	29	0
Certification of Grants Claim and Returns - 2011/12	0	31
Certification of Grants Claim and Returns - 2012/13	0	20
	<b>136</b>	<b>114</b>

**10. Members' Allowances**

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

	<b>2011/12 £'000</b>	<b>2012/13 £'000</b>
Allowances	409	413
Expenses	15	15
<b>Total Members' Allowances</b>	<b>424</b>	<b>428</b>

**11. Officers' Remuneration and Termination Benefits**

The number of employees whose remuneration, excluding pension contributions was £50,000 or more in bands of £5,000 in 2012/13 was:-

<b>Remuneration Band</b>	<b>2011/12 Number of Employees</b>	<b>2012/13 Number of Employees</b>
£50,000 - £54,999	9	10
£55,000 - £59,999	1	2
£60,000 - £64,999	7	3
£65,000 - £69,999	4	7
£70,000 - £84,999	0	0
£85,000 - £89,999	1	0
£90,000 - £94,999	0	1
£95,000 - £99,999	1	1
£100,000 - 114,999	0	0
£115,000 - £119,999	0	1
£130,000 - £134,999	1	0

The following table sets out the remuneration of senior officers in the year. A senior officer is described as 'a person who has responsibility for the management of the relevant body to the extent that the person has power to direct or control the major activities of the body, whether solely or collectively with other persons.' For the purposes of these accounts, Test Valley Borough Council has determined that senior officers are those included in the Officers' Management Team.

The 'Total Remuneration excluding pension contributions' of the officers below is included in the pay bandings in the above table.

Post	Salary (Including Fees and Allowances)		Car Allowance and Other Expenses		Total Remuneration Excluding Pension Contributions		Pension Contributions		Total Remuneration Including Pension Contributions	
	11/12	12/13	11/12	12/13	11/12	12/13	11/12	12/13	11/12	12/13
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Chief Executive - Note 1	124	<b>109</b>	7	<b>7</b>	131	<b>116</b>	16	<b>14</b>	147	<b>130</b>
Corporate Director	89	<b>90</b>	6	<b>7</b>	95	<b>97</b>	12	<b>12</b>	107	<b>109</b>
Corporate Director	81	<b>86</b>	4	<b>4</b>	85	<b>90</b>	11	<b>11</b>	96	<b>101</b>
Head of Administration	61	<b>61</b>	5	<b>5</b>	66	<b>66</b>	8	<b>8</b>	74	<b>74</b>
Head of Community & Leisure	58	<b>61</b>	4	<b>6</b>	62	<b>67</b>	8	<b>8</b>	70	<b>75</b>
Head of Environmental Services	60	<b>61</b>	4	<b>5</b>	64	<b>66</b>	8	<b>8</b>	72	<b>74</b>
Head of Estates - Note 2	62	<b>62</b>	4	<b>4</b>	66	<b>66</b>	8	<b>8</b>	74	<b>74</b>
Head of Finance	61	<b>61</b>	3	<b>4</b>	64	<b>65</b>	8	<b>8</b>	72	<b>73</b>
Head of Housing & Environmental Health	61	<b>61</b>	5	<b>5</b>	66	<b>66</b>	9	<b>9</b>	75	<b>75</b>
Head of IT - Note 3	63	<b>61</b>	3	<b>6</b>	66	<b>67</b>	8	<b>8</b>	74	<b>75</b>
Head of Legal & Democratic - Note 4	61	<b>57</b>	4	<b>3</b>	65	<b>60</b>	8	<b>7</b>	73	<b>67</b>
Head of Policy & Organisational Development	46	<b>0</b>	0	<b>0</b>	46	<b>0</b>	1	<b>0</b>	47	<b>0</b>
Head of Planning & Building	61	<b>61</b>	4	<b>4</b>	65	<b>65</b>	8	<b>8</b>	73	<b>73</b>
Head of Planning Policy & Transport	61	<b>61</b>	4	<b>6</b>	65	<b>67</b>	8	<b>8</b>	73	<b>75</b>

Note 1 – The total remuneration of the Chief Executive includes both a salary for work carried out as Head of Paid Service for the Council and also fees payable as the Local Returning Officer for elections held in the year. Payments as returning officer in 2012/13 were £1,450 (2011/12 £16,873).

Note 2 – The Head of Estates received a bonus of £750 in the year.

Note 3 –The Council shared the Head of IT with Winchester City Council in the year and received £40,300 as a contribution towards the employment costs of the postholder (2011/12 £39,400).

Note 4 – The Head of Legal & Democratic retired in October 2012 and her successor was recruited in the same month. The costs shown above are the combined costs of both post-holders in the year.

Note 5 – The Council shares the Head of Revenues with Winchester City Council. The Council's contribution towards this post in 2012/13 was £37,100 (2011/12 £35,900) which covers salary and associated employer costs including pension contributions.

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

Exit Package Band	Number of Redundancies		Number of Other Departures		Total Cost of Exit Packages by Band	
	2011/12	2012/13	2011/12	2012/13	2011/12 £'000	2012/13 £'000
£0 - £20,000	5	1	0	2	37	11
£20,001 - £60,000	3	2	0	0	93	90
<b>Total</b>	<b>8</b>	<b>3</b>	<b>0</b>	<b>2</b>	<b>130</b>	<b>101</b>

The Code required that exit packages are banded in groupings of £20,000 for disclosure purposes. The Council has combined two bands in the table above due to the low number of staff involved which could lead to identification of individuals.

All the costs above were charged to the Comprehensive Income and Expenditure Statement in the year.

For 2012/13, none of the above costs (2011/12 £34,600) related to senior officers detailed in the note above.

## 12. Defined Benefit Pension Scheme

As part of the terms and conditions of employment of its officers, the Council contributes towards the cost of post-employment benefits. Although these benefits will not actually be payable until employees retire, the Council has a commitment to make the payments and this needs to be disclosed at the time that employees earn their future entitlement.

The Council participates in the Local Government Pension Scheme, administered by Hampshire County Council – this is a funded defined benefit final salary scheme, meaning that the Council and its employees pay contributions into a fund, calculated at a level estimated to balance the pensions' liabilities with investment assets.

In previous years, the Council awarded discretionary post-retirement benefits upon early retirement. This is an unfunded defined benefit arrangement, meaning that no assets exist to meet the ongoing liabilities.

The Council contributes to the Pension Fund at a common rate applicable to a group of employees which is set having regard to the assets and liabilities of the group as a whole. In 2012/13 the rate was 13.1% plus a fixed sum contribution of £610,000 (2011/12 13.1% plus £610,000 fixed sum contribution).

The accounts recognise the cost of retirement benefits in the Net Cost of Services when they are earned by employees, rather than when the benefits are eventually

paid as pensions. However, the charge made against the Council Tax is based on cash payable in the year, so the real cost of retirement benefits is reversed out of the General Fund in the Movement in Reserves Statement.

The following transactions have been included in the Comprehensive Income & Expenditure Statement and Movement in Reserves Statement during the year:

<b><u>Comprehensive Income &amp; Expenditure Statement</u></b>	<b>2011/12 £'000</b>	<b>2012/13 £'000</b>
<b><u>Cost of Services</u></b>		
Current Service Costs	1,650	1,950
Unfunded Benefits Paid Out	(200)	(210)
<b><u>Financing &amp; Investment Income &amp; Expenditure</u></b>		
Interest Cost	5,480	5,320
Expected Return on Scheme Assets	(4,250)	(3,950)
<b>Total amount included in the Surplus on Provision of Services</b>	<b>2,680</b>	<b>3,110</b>
<b><u>Other Comprehensive Income &amp; Expenditure</u></b>		
Actuarial Gains / (Losses)	(10,900)	(5,380)
<b>Total amount charged to the Comprehensive Income &amp; Expenditure Statement</b>	<b>(8,220)</b>	<b>(2,270)</b>
<b><u>Movement In Reserves Statement</u></b>		
Reversal of net charges made to the Surplus or deficit on the Provision of Services in accordance with the Code	(2,680)	(3,110)
Actual employer's contributions payable	1,920	1,920
<b>Total Amount included in the Movement in Reserves Statement (note 5)</b>	<b>(760)</b>	<b>(1,190)</b>

It is forecast that pension contributions payable by the employer in 2013/14 in respect of regular contributions will amount to £1.98M and in respect of unfunded benefits will amount to £220,000.

In addition to the gains and losses shown above, actuarial gains and losses have been shown in the Comprehensive Income & Expenditure Statement as shown in the table below.

	<b>2011/12 £'000</b>	<b>2012/13 £'000</b>
Total Actuarial Losses	(10,900)	(5,380)
Cumulative losses recognised in the Comprehensive Income & Expenditure Statement	(36,100)	(41,480)

Assets & Liabilities in relation to retirement benefits

The tables below show the Council's liabilities to the Pension Fund and its share of the Fund's assets at the year end.

<b>Liabilities</b>	<b>2011/12 £'000</b>	<b>2012/13 £'000</b>
<b>Opening present value of liabilities</b>	<b>100,370</b>	<b>114,030</b>
Current Service Cost	1,650	1,950
Interest Cost	5,480	5,320
Contributions by Participants	700	680
Actuarial loss on liabilities	9,530	10,800
Net benefits paid out (including unfunded liabilities)	(3,700)	(3,900)
<b>Closing present value of liabilities</b>	<b>114,030</b>	<b>128,880</b>

Liabilities at 31 March 2012 included funded liabilities of £125.08M and unfunded liabilities of £3.80M (2011/12 - £110.58M funded and £3.45M unfunded).

<b>Assets</b>	<b>2011/12 £'000</b>	<b>2012/13 £'000</b>
<b>Opening fair value of assets</b>	<b>60,930</b>	<b>62,930</b>
Expected return on assets	4,250	3,950
Actuarial gain / (loss) on assets	(1,370)	5,420
Contributions by the employer	1,920	2,130
Contributions by Participants	700	680
Net benefits paid out	(3,500)	(3,900)
<b>Closing fair value of assets</b>	<b>62,930</b>	<b>71,210</b>

The expected return on scheme assets is determined by considering the expected returns available on the assets underlying the current investment policy. Expected yields on fixed interest investments are based on gross redemption yields as at the Balance Sheet date. Expected returns on equity investments reflect long-term real rates of return experienced in the respective markets.

The actual return on assets in the year is shown in the following table.

<b>Assets</b>	<b>2011/12 £'000</b>	<b>2012/13 £'000</b>
Expected return on assets	4,250	3,950
Actuarial gains / (losses) on assets	(1,370)	5,420
<b>Actual return on assets</b>	<b>2,880</b>	<b>9,370</b>

	<b>2008/09 £'000</b>	<b>2009/10 £'000</b>	<b>2010/11 £'000</b>	<b>2011/12 £'000</b>	<b>2012/13 £'000</b>
Differences between the expected and actual return on assets	(15,110)	12,020	210	(1,370)	5,420
	-34.2%	20.7%	0.3%	-2.2%	7.6%
Experience gains / (losses) on liabilities	(540)	1,360	2,090	(970)	190
	-0.5%	1.1%	2.1%	-0.9%	0.2%

## Scheme History

The underlying assets and liabilities for retirement benefits attributable to the Council at 31 March 2013 and the preceding four years are as follows.

	2008/09	2009/10	2010/11	2011/12	2012/13
	£'000	£'000	£'000	£'000	£'000
Value of Funded Liabilities	80,360	109,890	97,170	110,580	125,080
Value of Unfunded Liabilities	3,200	3,650	3,200	3,450	3,800
Value of Assets	(44,200)	(58,040)	(60,930)	(62,930)	(71,210)
<b>Net Deficit</b>	<b>39,360</b>	<b>55,500</b>	<b>39,440</b>	<b>51,100</b>	<b>57,670</b>

The liabilities show the underlying commitments that the Council has to pay in the long term towards retirement benefits. The total liability has a substantial impact on the net worth of the Council as recorded in the Balance Sheet. However, statutory arrangements for funding the deficit mean the financial position of the Council remains healthy. The deficit will be made good by increased contributions over the remaining working life of employees, as assessed by the scheme actuary.

### Basis for estimating assets and liabilities

Liabilities have been assessed on an actuarial basis using the projected unit credit method, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels, etc.. The Fund's liabilities have been assessed by an independent firm of actuaries, based on the latest full valuation of the scheme carried out as at 31 March 2010.

The principal assumptions used by the actuary were:

	2011/12	2012/13
Discount rate for scheme liabilities	4.7%	4.3%
Rate of Inflation - RPI	3.5%	3.6%
Rate of Inflation - CPI	2.5%	2.7%
Rate of increase in salaries	5.0%	4.6%
Rate of increase in pensions in payment	2.5%	2.7%
Rate of increase in pensions in deferment	2.5%	2.7%
<b>Long-term expected rates of return on:</b>		
Equities	8.1%	7.8%
Government Bonds	3.1%	2.8%
Corporate Bonds	3.7%	3.8%
Property	7.6%	7.3%
Cash	1.8%	0.9%
Other Assets	8.1%	7.8%
Average long-term expected rate of return	6.4%	6.3%
<b>Mortality Assumptions</b>		
Longevity at 65 for current pensioners (years)		
Men	23.9	24.0
Women	24.9	25.0

It is assumed that each member will exchange 25% of the maximum value permitted of their pre 1<sup>st</sup> April 2010 pension rights on retirement for an additional lump sum (2011/12 - 25%) and 75% of the maximum value permitted of their post 31<sup>st</sup> March 2010 pension entitlements for an additional lump sum (2011/12 - 75%).

The proportions of total assets held in each asset type, shown below, reflect the proportions held by the Fund as a whole at 31<sup>st</sup> March 2013.

	<b>2011/12</b>	<b>2012/13</b>
	%	%
Equities	55.1%	57.6%
Bonds	28.5%	26.2%
Property	7.7%	7.8%
Other	8.7%	8.4%
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>

### 13. Leases

#### **Finance Leases**

The Council has acquired a number of items of plant and equipment under finance leases. The assets acquired under these leases are carried as Property, Plant & Equipment in the Balance Sheet at the following net book values.

	<b>2011/12</b>	<b>2012/13</b>
	£'000	£'000
Vehicles, Plant & Equipment	256	155

The Council is committed to making minimum payments under these leases comprising settlement of the long-term liability for the purchase of the asset and an interest cost payable while the liability remains outstanding. The minimum lease payments are made up of the following amounts.

	<b>2011/12</b>	<b>2012/13</b>
	£'000	£'000
Present value of lease payments		
Less than one year	102	78
One to five years	154	77
Finance Costs payable in future years	23	10
<b>Minimum Lease Payments</b>	<b>279</b>	<b>165</b>



## Operating Leases

The Council has acquired certain vehicles and items of plant and equipment under operating leases. The future minimum lease payments due under these lease contracts are shown in the following table.

	2011/12 £'000	2012/13 £'000
Leases expiring in less than one year	174	87
Leases expiring between one to five years	133	48
<b>Total lease rentals payable</b>	<b>307</b>	<b>135</b>

In 2012/13 total rental payments amounted to £377,000 (2011/12 - £439,000). All rental payments in the year were minimum lease payments (i.e. no contingent rents were payable) and have mainly been charged to the Cultural and Related (£163,000) and Environmental and Regulatory (£193,000) lines in the Comprehensive Income & Expenditure Statement.

The Council leases out land and property under operating leases for a number of purposes. These include generation of income from investment properties and for the provision of recreational facilities.

The future minimum lease rentals receivable under non-cancellable leases in future years are shown in the table below.

	2011/12 £'000	2012/13 £'000
Receivable within one year	5,079	5,047
Receivable within one to five years	19,521	19,634
Receivable after five years	379,565	376,719
<b>Total minimum lease rentals receivable</b>	<b>404,165</b>	<b>401,400</b>

The minimum lease payments receivable do not include rents that are contingent on performance or based on a percentage of turnover.

In 2012/13 the Council recognised income from contingent rents of £791,000 (2011/12 - £932,000).

## 14. Property, Plant & Equipment (PPE)

Property, plant and equipment assets of the Council are shown at; cost less depreciation, depreciated replacement cost or market value.

These are assets which are held and occupied / used for the delivery of services for which the Council is responsible. For example, this includes offices, parks & open spaces, car parks and vehicles.

The following table shows the movement in balances of items of property, plant and equipment in the year. The vast majority of these items are owned outright by the Council; however, in the Net Book Value of Vehicles, Plant and Equipment at 31<sup>st</sup> March 2013, £155,000 relates to assets purchased by the Council under finance leases (31<sup>st</sup> March 2012 - £256,000).

<b>2012/13</b>	<b>Land &amp; Buildings</b>	<b>Vehicles, Plant &amp; Equipment</b>	<b>Infra structure</b>	<b>Community</b>	<b>Total</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
<b>Cost / Valuation</b>					
Historic Cost b/f	42,948	4,430	728	3,983	<b>52,089</b>
Revaluation Increases shown in the Revaluation Reserve b/f	19,649	11	0	0	<b>19,660</b>
Revaluation Decreases shown in the CI&ES b/f	(3,369)	(507)	0	(738)	<b>(4,614)</b>
Additions	875	737	99	212	<b>1,923</b>
Revaluations	184	0	0	0	<b>184</b>
Disposals - Historic Cost	0	(124)	0	0	<b>(124)</b>
Reverse depreciation on revalued assets	(700)	0	0	0	<b>(700)</b>
Impairments in year	(64)	0	0	0	<b>(64)</b>
<b>Cost / Valuation at 31st March 2013</b>	<b>59,523</b>	<b>4,547</b>	<b>827</b>	<b>3,457</b>	<b>68,354</b>
<b>Depreciation</b>					
Historic Cost Depreciation b/f	(1,674)	(1,743)	(88)	(153)	<b>(3,658)</b>
Depreciation on Revaluations b/f	(460)	(2)	0	0	<b>(462)</b>
Charge in year - Historic Cost	(900)	(624)	(29)	(37)	<b>(1,590)</b>
Charge in year - Revalued Amounts	(235)	(1)	0	0	<b>(236)</b>
Reverse depreciation on revalued assets	700	0	0	0	<b>700</b>
<b>Depreciation at 31st March 2013</b>	<b>(2,569)</b>	<b>(2,370)</b>	<b>(117)</b>	<b>(190)</b>	<b>(5,246)</b>
<b>Net Book Value at 31st March 2013</b>	<b>56,954</b>	<b>2,177</b>	<b>710</b>	<b>3,267</b>	<b>63,108</b>
<b>Net Book Value at 31st March 2012</b>	<b>57,094</b>	<b>2,189</b>	<b>640</b>	<b>3,092</b>	<b>63,015</b>

The impairments shown above are due to changes in the market value of assets as a result of current market conditions or as a result of changes to lease conditions which have altered an asset's carrying value. No assets were materially impaired as a result of structural damage.

Comparative Information for 2011/12

<b>2011/12</b>	<b>Land &amp; Buildings £'000</b>	<b>Vehicles, Plant &amp; Equipment £'000</b>	<b>Infra structure £'000</b>	<b>Community £'000</b>	<b>Total £'000</b>
<b>Cost / Valuation</b>					
Historic Cost b/f	41,350	3,536	684	3,902	<b>49,472</b>
Revaluation Increases shown in the Revaluation Reserve b/f	20,187	11	0	0	<b>20,198</b>
Revaluation Decreases shown in the CI&ES b/f	(2,319)	(507)	0	(738)	<b>(3,564)</b>
Additions	1,580	907	44	81	<b>2,612</b>
Revaluations	(188)	0	0	0	<b>(188)</b>
Reclassifications	391	0	0	0	<b>391</b>
Disposals - Historic Cost	(374)	0	0	0	<b>(374)</b>
Disposals - Revalued Amounts	(350)	0	0	0	<b>(350)</b>
Reverse depreciation on disposals	0	(13)	0	0	<b>(13)</b>
Impairments in year	(1,049)	0	0	0	<b>(1,049)</b>
<b>Cost / Valuation at 31st March 2012</b>	<b>59,228</b>	<b>3,934</b>	<b>728</b>	<b>3,245</b>	<b>67,135</b>
<b>Depreciation</b>					
Historic Cost Depreciation b/f	(830)	(1,181)	(62)	(117)	<b>(2,190)</b>
Depreciation on Revaluations b/f	(230)	(1)	0	0	<b>(231)</b>
Charge in year - Historic Cost	(844)	(575)	(26)	(36)	<b>(1,481)</b>
Charge in year - Revalued Amounts	(230)	(1)	0	0	<b>(231)</b>
Reverse depreciation on disposals	0	13	0	0	<b>13</b>
<b>Depreciation at 31st March 2012</b>	<b>(2,134)</b>	<b>(1,745)</b>	<b>(88)</b>	<b>(153)</b>	<b>(4,120)</b>
<b>Net Book Value at 31st March 2012</b>	<b>57,094</b>	<b>2,189</b>	<b>640</b>	<b>3,092</b>	<b>63,015</b>
<b>Net Book Value at 31st March 2011</b>	<b>58,158</b>	<b>1,858</b>	<b>622</b>	<b>3,047</b>	<b>63,685</b>

Depreciation is charged based on the following assumed useful economic lives

- Land – Not depreciated
- Buildings – 10 to 60 years
- Vehicles – 3 to 7 years
- Plant & Equipment – 3 to 15 years
- Infrastructure Assets – 10 to 30 years

The following table shows, for each class of PPE asset, the value of assets based on their respective methods of valuation. Where assets are carried at revalued amounts, the value is shown based on the year of the most recent revaluation.

	Cost	Depreciated Cost	Revalued in 2009/10	Revalued in 2010/11	Revalued in 2011/12	Revalued in 2012/13	Total value of PPE
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Land and Buildings	0	0	44,192	296	2,648	9,818	56,954
Vehicles, Plant & Equipment	38	1,481	658	0	0	0	2,177
Infrastructure	38	672	0	0	0	0	710
Community	2,991	276	0	0	0	0	3,267
<b>Total PPE Assets</b>	<b>3,067</b>	<b>2,429</b>	<b>44,850</b>	<b>296</b>	<b>2,648</b>	<b>9,818</b>	<b>63,108</b>

The Council carries out a rolling programme of valuations that ensures all PPE assets are valued at least once every five years. Revaluations in 2012/13 were carried out by the Council's internal RICS registered valuers and all revaluations were carried out as at 31<sup>st</sup> March 2013.

The majority of information for PPE valuations comes from assessing active markets for similar properties. However, there is still some need for estimation as no two properties can be treated the same. The Council's valuers make assumptions on certain areas including the asset's useful remaining life and degree of specialism in calculating the asset's value for the accounts.

At the 31st March 2013 contractual commitments on existing capital schemes totalled £577,000 (2011/12 £349,000). The largest single commitment was for £323,000 in respect of work at Romsey Rapids to replace the Air-Handling Units.

## 15. Investment Properties

There are no restrictions on the Council's ability to realise the value inherent in its investment property portfolio or in the Council's right to the remittance of income and the proceeds of disposal. The Council has no contractual obligations to purchase, construct or develop investment property or for repairs, maintenance or enhancement.

Valuations of Investment Property have been carried out by the Council's internal RICS registered valuers. Valuations are primarily based on market evidence of similar properties at the Balance Sheet date.

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

	2011/12 £'000	2012/13 £'000
<b>Balance at start of year</b>	<b>78,802</b>	<b>72,823</b>
Expenditure on existing property	389	3
Net changes in fair value of property	(5,977)	(5,454)
Disposals	0	(285)
Reclassifications	(391)	0
<b>Balance at end of year</b>	<b>72,823</b>	<b>67,087</b>

The following items of income and expense have been accounted for in the Financing and Investment Income and Expenditure line in the Comprehensive Income & Expenditure Statement.

	2011/12 £'000	2012/13 £'000
Rental income from Investment Property	5,935	5,653
Investment Property direct costs	(404)	(462)
<b>Net Investment Property income</b>	<b>5,531</b>	<b>5,191</b>

#### 16. Intangible Assets

Intangible Assets represent the value of development costs and software licences for computer programmes used and the Council's right to hold markets in Andover Town Centre.

Market rights are not amortised as they are considered to have a life longer than 50 years; however an annual impairment review is carried out on this asset to ensure the carrying value is prudent.

Software licences are amortised over their estimated useful economic life on a straight line basis.

	Software Licences £'000	Market Rights £'000	Total £'000
<b>Cost or Valuation</b>			
Depreciated Historic Cost b/f	665	414	1,079
Additions	67	0	67
<b>Cost / Valuation at 31st March 2013</b>	<b>732</b>	<b>414</b>	<b>1,146</b>
<b>Amortisation</b>			
Amortisation of Historic Cost b/f	(251)	0	(251)
Charge for the year	(102)	0	(102)
<b>Amortisation at 31st March 2013</b>	<b>(353)</b>	<b>0</b>	<b>(353)</b>
<b>Net Book Value as at 31st March 2013</b>	<b>379</b>	<b>414</b>	<b>793</b>
<b>Net Book Value as at 31st March 2012</b>	<b>414</b>	<b>414</b>	<b>828</b>

Comparative information for 2011/12

	<b>Software Licences £'000</b>	<b>Market Rights £'000</b>	<b>Total £'000</b>
<b>Cost or Valuation</b>			
Depreciated Historic Cost b/f	665	414	1,079
<b>Cost / Valuation at 31st March 2012</b>	<b>665</b>	<b>414</b>	<b>1,079</b>
<b>Amortisation</b>			
Amortisation of Historic Cost b/f	(149)	0	(149)
Charge for the year	(102)	0	(102)
<b>Amortisation at 31st March 2012</b>	<b>(251)</b>	<b>0</b>	<b>(251)</b>
<b>Net Book Value as at 31st March 2012</b>	<b>414</b>	<b>414</b>	<b>828</b>
<b>Net Book Value as at 31st March 2011</b>	<b>516</b>	<b>414</b>	<b>930</b>

**17. Heritage Assets**

The Council holds a number of heritage assets. Some of these are carried at historical cost and others are not included on the Balance Sheet. The total estimated value of Heritage Assets at the balance sheet date is shown in the table below split according to their treatment in the Balance Sheet.

	<b>Carrying Value</b>	<b>Fair Value</b>	<b>Carrying Value</b>	<b>Fair Value</b>
	<b>2011/12 £'000</b>	<b>2011/12 £'000</b>	<b>2012/13 £'000</b>	<b>2012/13 £'000</b>
Included in Community Assets	83	258	83	258
Not included in the Balance Sheet	0	190	0	190
<b>Total</b>	<b>83</b>	<b>448</b>	<b>83</b>	<b>448</b>

The most significant Heritage Assets owned by the Council are the silver maces which form part of the Council's civic insignia. Other Heritage Assets include the war memorials in Andover and Romsey, a Japanese cannon in Romsey War Memorial Park and various pieces of public art.

FRS30 (Heritage Assets) requires that, where material, Heritage Assets be shown at valuation as a separate category of non-current asset on the Balance Sheet. The total estimated value of Heritage Assets is not material; therefore the Council has elected not to re-state the accounts to the extent required by the Standard.

## 18. Profit / Loss on Disposal of Assets

During the year, the Council made a net profit on the disposal of fixed assets of £90,000 (2011/12 loss of £318,000). An analysis of this profit is shown in the table below.

	2011/12 £'000	2012/13 £'000
Right To Buy Contributions	105	60
Loss on disposal of property, plant & equipment	(423)	0
Profit on disposal of investment property	0	30
<b>Total Profit / (Loss) on Disposal of Assets</b>	<b>(318)</b>	<b>90</b>

## 19. Capital Expenditure and Financing

Total Capital Expenditure to be financed in 2012/13 amounted to £3.625M. This can be analysed as expenditure on new assets (£1.993M) and revenue expenditure funded from capital (£1.632M).

	2011/12 £'000	2012/13 £'000
<b>Opening Capital Financing Requirement</b>	<b>(660)</b>	<b>(660)</b>
<b>Capital Expenditure</b>		
Property, Plant & Equipment	2,612	1,923
Investment Property	389	3
Intangible Assets	0	67
Revenue Expenditure Funded from Capital Under Statute	1,182	1,632
<b>Sources of Finance</b>		
Capital Receipts	(2,241)	(1,895)
Government Grants and Other Contributions	(774)	(722)
Contributions from Revenue / Reserves	(1,168)	(1,008)
<b>Closing Capital Finance Requirement</b>	<b>(660)</b>	<b>(660)</b>

The Government Grants and Other Contributions line shown above represents the total 'Capital Grants and Contributions' figure per the Comprehensive Income & Expenditure Statement (2011/12 £208,000). The 2011/12 figure also includes the Disabled Facilities Grant shown as a Service Specific Grant in note 7 of £462,000 and Partnership for Urban South Hampshire contributions of £104,000.

Additions to assets and expenditure on revenue items funded from capital have been analysed on a service basis below:

	<b>2012/13 Long-Term Assets</b>	<b>2012/13 Revenue Expenditure Funded From Capital</b>	<b>2012/13 Total</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Community & Leisure	453	52	<b>505</b>
Environmental	375	0	<b>375</b>
Estates	689	0	<b>689</b>
Housing & Env. Health	22	1,568	<b>1,590</b>
IT	384	0	<b>384</b>
Planning Policy & Transport	70	12	<b>82</b>
<b>Total Expenditure</b>	<b>1,993</b>	<b>1,632</b>	<b>3,625</b>

## 20. Cash and Cash Equivalents

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

	<b>2011/12 £'000</b>	<b>2012/13 £'000</b>
Cash held by the Council	5	5
Bank Current Accounts	(200)	(200)
Short-term deposits	2,084	12,301
<b>Total Cash &amp; Cash Equivalents</b>	<b>1,889</b>	<b>12,106</b>

## 21. Analysis of Debtors

	<b>2011/12 £'000</b>	<b>2012/13</b>		<b>Net £'000</b>
		<b>Debtor £'000</b>	<b>Bad Debt Allowance £'000</b>	
Central Government Bodies	1,537	2,541	0	2,541
Sundry Debtors	4,140	4,090	(1,228)	2,862
Collection Fund	158	344	(177)	167
Housing	8	63	(56)	7
Car Leasing and Loans	153	153	(13)	140
<b>Total Debtors</b>	<b>5,996</b>	<b>7,191</b>	<b>(1,474)</b>	<b>5,717</b>

Included within car leasing and loans above are loans to employees for vehicle purchases. Interest is set at a fixed rate of 1% above base rate at the date the loan was agreed. At 31<sup>st</sup> March 2013, £136,000 (2011/12 - £141,000) was outstanding.



## 22. Analysis of Creditors

	2011/12 £'000	2012/13 £'000
Sundry Creditors	4,669	4,494
Collection Fund	748	741
Central Government	543	151
Section 106 Balances	3,222	3,826
Compensated Absences Accrual	210	182
Finance Lease Creditors due in less than 1 year	102	78
<b>Total Creditors</b>	<b>9,494</b>	<b>9,472</b>

Section 106 balances relate to contributions made by developers as part of certain planning agreements. These sums are included as creditors because many contributions have time conditions within which expenditure must be made.

The section 106 balances are comprised of the following types of contribution.

	2011/12 £'000	2012/13 £'000
Open Spaces / Recreation	2,020	2,403
Highways / Cycle Routes / Green Travel	377	427
Affordable Housing	0	226
Education & Skills' Development	465	383
Public Art	230	230
Other	130	157
<b>Total Section 106 balances</b>	<b>3,222</b>	<b>3,826</b>

## 23. Trust Funds

The Council operates a number of trusts for civic purposes. The balances at the end of the year were £90,000 (2011/12 £96,000). The most significant balance is in respect of the Romsey Walk and Pleasure Ground - £87,000 (2011/12 £87,000).

## 24. Usable Reserves

The Council's usable reserves represent the level of funding the Council has at its disposal to allocate to future expenditure, subject to the requirement to retain prudent reserve levels for unforeseen future events.

The amounts making up the Council's usable reserves are summarised in the table below. More information on each reserve is given in the following paragraphs.

Reserve	2011/12 £'000	2012/13 £'000
General Fund Balance	2,000	2,000
Revenue & Earmarked Reserves	10,673	11,649
Capital Receipts Reserve	35,848	34,349
<b>Total Usable Reserves</b>	<b>48,521</b>	<b>47,998</b>

## General Fund Balance

The recommended minimum prudent level of General Reserves is considered to be £2M and is the level at which the General Fund Balance has been included in these accounts.

The surplus of £435,000 arising from the Comprehensive Income & Expenditure Statement in the year was transferred to asset management reserves.

## Revenue & Earmarked Reserves

Earmarked reserves are held for specific purposes for costs which will be incurred in future years.

A breakdown of the movement in Earmarked Reserves is shown in the table below.

	<b>Balance as at 31/03/2011</b>	Transfers In 2011/12	Transfers Out 2011/12	<b>Balance as at 31/03/2012</b>	Transfers In 2012/13	Transfers Out 2012/13	<b>Balance as at 31/03/2013</b>
	<b>£'000</b>	£'000	£'000	<b>£'000</b>	£'000	£'000	<b>£'000</b>
Income Equalisation Reserve	600	0	0	600	0	0	600
Budget Equalisation Reserve	600	625	0	1,225	0	(161)	1,064
Investment Equalisation Reserve	600	0	0	600	0	0	600
Pension Equalisation Reserve	200	0	0	200	0	0	200
Capacity Building Reserve	203	0	0	203	0	(91)	112
Special Projects Reserve	150	0	(20)	130	0	(50)	80
New Homes' Bonus Reserve	0	480	0	480	799	(19)	1,260
Asset Management Plan	1,009	180	(11)	1,178	520	(274)	1,424
Vehicles and Equipment Replacement Reserve	913	616	(547)	982	567	(438)	1,111
Budget Carry Forward Reserve	117	105	(117)	105	104	(105)	104
Local Authority Business Growth Incentive	280	0	(92)	188	0	(101)	87
Borough Election Reserve	200	0	(115)	85	0	0	85
All Risks Self-Insurance Reserve	167	0	(15)	152	0	0	152
Trading Services' Reserves	95	0	(95)	0	0	0	0
Planning Delivery Grant Reserve	332	0	(58)	274	0	0	274
Local Development Framework Reserve	400	14	0	414	0	(19)	395
Waste Performance & Efficiency Grant	135	0	(27)	108	0	(14)	94
Council Tax Support Transition	0	0	0	0	50	0	50
Developer contribution for future years' maintenance costs	3,157	423	(211)	3,369	429	(248)	3,550
Other Earmarked Reserves	352	110	(82)	380	89	(62)	407
<b>Total Earmarked Revenue Reserves</b>	<b>9,510</b>	<b>2,553</b>	<b>(1,390)</b>	<b>10,673</b>	<b>2,558</b>	<b>(1,582)</b>	<b>11,649</b>

The most significant amounts included within Other Earmarked Reserves are in respect of a desktop replacement programme for PCs and Printers (£115,000), Benefits Support (£102,000) and for expenditure in respect of Housing, Health and Communities Service projects (£74,000).

The property insurance policy has an excess of £5,000 per claim. The Council self-insures 'All Risks' items for which an earmarked reserve of £152,000 (2011/12 £152,000) is set aside. In the case of car loans, the risk of default or death of the borrower is on a self-insured basis. A fund was set up to collect premiums from borrowers.

#### Capital Receipts Reserve

The movement of the balance of the Capital Receipts Reserve reflects the transactions in the year in generating capital receipts and incurring capital expenditure. These transactions are summarised in the table below.

	2011/12		2012/13	
	£'000	£'000	£'000	£'000
<b>Balance at start of year</b>		<b>37,628</b>		<b>35,848</b>
Capital Receipts				
Sale of Assets	300		438	
Right to Buy Receipts	105		60	
		405		498
Capital Expenditure				
Purchase of Assets	1,456		760	
Revenue Expenditure funded from Capital Under Statute	616		1,136	
Repayment of finance lease creditor	113		101	
		(2,185)		(1,997)
<b>Balance at end of year</b>		<b>35,848</b>		<b>34,349</b>

#### **25. Unusable Reserves**

There are a number of unusable reserves that make up part of the Council's net worth. The balances on these accounts are calculated according to proper accounting practices but the balance cannot be used by the Council for future expenditure on delivering services.

The amounts making up the Council's unusable reserves are summarised in the following table. More information on each reserve is given in the following paragraphs.

<b>Reserve</b>	<b>2011/12 £'000</b>	<b>2012/13 £'000</b>
Revaluation Reserve	19,203	19,151
Capital Adjustment Account	117,886	112,361
Deferred Credits	8	7
Collection Fund Adjustment Account	174	174
Accumulated Absences Account	(210)	(182)
Pension Fund Reserve	(51,100)	(57,670)
<b>Total Unusable Reserves</b>	<b>85,961</b>	<b>73,841</b>

### Revaluation Reserve

The balance on the Revaluation Reserve represents the unrealised gains made by the Council arising from increases in the value of its Property, Plant & 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
- disposed of and the gains realised.

The reserve contains only revaluation gains accumulated since 1<sup>st</sup> April 2007, the date that the reserve was created. Accumulated gains arising before that date are consolidated into the balance of the Capital Adjustment Account.

	<b>2011/12</b>		<b>2012/13</b>	
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
<b>Balance at start of year</b>		<b>19,972</b>		<b>19,203</b>
Upward revaluations of assets in the year	212		1,015	
Downward revaluations of assets in the year	(400)		(831)	
Depreciation of previous years' revaluation gains	(231)		(236)	
Accumulated gains on assets disposed of in the year	(350)		0	
		(769)		(52)
<b>Balance at end of year</b>		<b>19,203</b>		<b>19,151</b>

### Capital Adjustment Account

The Capital Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for the purchase, subsequent expenditure, depreciation and impairment of assets compared with the financing of those assets under statutory provisions.

	2011/12		2012/13	
	£'000	£'000	£'000	£'000
<b>Balance at start of year</b>		<b>123,922</b>		<b>117,886</b>
Reverse previous years' impairment losses	30		0	
Transfer from Revaluation Reserve	231		236	
Revaluation losses on Investment Property	(5,977)		(5,454)	
Assets purchased in the year	3,001		1,993	
Repayment of finance lease obligations	113		101	
Transfer from Capital Receipts Reserve	616		1,136	
		(1,986)		(1,988)
Disposal of assets	(374)		(409)	
Depreciation of non-current assets	(1,712)		(1,826)	
Amortisation of intangible assets	(102)		(102)	
Impairments	(1,079)		(64)	
Revenue expenditure funded from capital	(616)		(1,136)	
New finance lease obligations	(167)		0	
		(4,050)		(3,537)
<b>Balance at end of year</b>		<b>117,886</b>		<b>112,361</b>

### Deferred Credits

This represents the balance of the remaining mortgages given by the Council that will become usable capital receipts when they are repaid.

### Collection Fund Adjustment Account

This represents the Council's share of the Balance on the Collection Fund. The Collection Fund and associated notes are shown in full on pages 58 to 60.

### Accumulated Absences Account

This represents the reversal of the accrual for compensated absences (annual leave not taken at the year-end). The accrual is required under the Code but under regulations is not allowed to count as expenditure against the General Fund and the subsequent level of Council Tax.

### Pension Fund Reserve

The Pension Fund Reserve absorbs the timing differences arising from the different arrangements for accounting for retirement benefits and for funding those benefits under statutory provisions.

The Council accounts for retirement benefits in the Comprehensive Income & Expenditure Statement as the benefits are earned by employees; however, statutory arrangements require that benefits are financed as the Council makes contributions to the pension fund.

The debit balance on this reserve therefore shows a substantial shortfall between the benefits earned by past and current employees of the Council and the resources set aside to meet them. Statutory arrangements will ensure that funding will have been set aside by the time the benefits come to be paid.

The transactions relating to the Council's pension liability are shown in more detail in note 12.

## **26. Net Assets Employed**

The net assets (total assets less liabilities) of the Council in total are £121.839M (2011/12 £134.482M). This represents the total equity of the Council.

The net assets figure is net of the deficit on the pension fund of £57.670M (see note 12 above). Without this provision the Council's net assets would be £179.509M (2011/12 £185.582M).

The effect of the pensions reserve is to reduce the Council's net worth by 32.13% (2011/12 - 27.53%).

## **27. Financial Instruments**

Financial instruments are contractual arrangements that give rise to a financial asset in one entity and a financial liability in another. For the Council this primarily relates to financial assets in the form of investments and debtors and financial liabilities in the form of creditors.

During the year all investment funds were managed internally.

Income earned on the Council's investments is credited to the Financing and Investment Income and Expenditure section of the Comprehensive Income & Expenditure Statement. This totalled £631,000 (2011/12 £770,000). The difference between this figure and the income shown on the Comprehensive Income & Expenditure Statement relates to other non-investment based income received in the year of £3,000.

The investment structure is based entirely on cash deposits over varying terms of maturity. At the Balance Sheet date the Council had investments (fixed-term deposits and call accounts) of £52.177M (2011/12 £52.244M), plus accrued interest of £140,000 (2011/12 £330,000).

## Financial Instrument Balances

The Code requires that financial instruments (investment, lending and borrowing of the Council) shown on the Balance Sheet be further analysed into various categories.

	31st March 2012		31st March 2013	
	Current £'000	Long-Term £'000	Current £'000	Long-Term £'000
<u>Investments</u>				
Cash & Cash Equivalents	1,889	0	12,106	0
Loans and Receivables	50,490	0	40,041	0
<u>Debtors</u>				
Sundry Debtors	3,787	18	3,755	17
Housing	64	0	63	0
Car Leasing and Loans	166	0	153	0
<u>Creditors</u>				
Sundry Creditors	(3,727)	0	(3,686)	0
Finance Lease Creditors	(102)	(154)	(78)	(77)

## Fair Value of Assets Carried at Amortised Cost

The fair value of each class of financial asset that is carried in the Balance Sheet at amortised cost is disclosed below. The fair value can be assessed by calculating the present value of the cash flows that will take place over the remaining term of the investments.

	31st March 2012		31st March 2013	
	Carrying Value £'000	Fair Value £'000	Carrying Value £'000	Fair Value £'000
Cash	6	6	6	6
Cash Equivalents	1,883	1,883	12,100	12,100
Deposits with banks and building societies	50,490	50,740	40,041	40,087
<b>Total</b>	<b>52,379</b>	<b>52,629</b>	<b>52,147</b>	<b>52,193</b>

The fair value is higher than the carrying amount because the Council's portfolio of investments includes a number of fixed rate loans where the interest rate receivable is higher than the rates available for similar loans at the Balance Sheet date. This shows a notional future gain (based on economic conditions at 31<sup>st</sup> March 2013) attributable to the commitment to receive interest above market rates.

It is considered that the carrying value is equal to the fair value for all other financial assets and liabilities not included in the table above.

The table below summarises the movements of the Council's investments over the year.

	<b>2011/12 £'000</b>	<b>2012/13 £'000</b>
Long-Term Investments	5,003	0
Temporary Investments	37,209	50,490
<b>Investments Brought forward</b>	<b>42,212</b>	<b>50,490</b>
<b>Movements in Year</b>		
<u>Long Term Investments</u>		
Reclassification to temporary investments	(5,000)	0
Accrued interest at start of year	(3)	0
	<b>(5,003)</b>	<b>0</b>
<u>Temporary Investments (&lt;1 year to maturity)</u>		
Investments returned in the year	(116,943)	(96,381)
Investments purchased in the year	124,984	86,122
Reclassification from long-term investments	5,000	0
Accrued interest at start of year	(90)	(330)
Accrued interest at end of year	330	140
	<b>13,281</b>	<b>(10,449)</b>
Long-Term Investments	0	0
Temporary Investments	50,490	40,041
<b>Investments Carried Forward</b>	<b>50,490</b>	<b>40,041</b>

## **28. Nature and Extent of Risks Arising From Financial Instruments**

### Liquidity Risk

The Council is debt free and has ready access to borrowing from the Public Works Loans Board. There is a minimal risk that the Council will not be able to meet its commitments under financial instruments.

### Market Risk

The Council had £3M invested in variable rate deposits at 31<sup>st</sup> March 2012. The risk of significant gains or losses as a result of movements in interest rates is negligible.

The fair value of fixed-rate financial assets will fall if interest rates rise. This will not impact on the Balance Sheet for the majority of assets held at amortised cost, but will impact on the disclosure note for fair value.

The Council does not have any available for sale assets (e.g. equity shares) and is therefore not prone to any gains or losses arising from movements in market prices.

### Credit Risk

Credit risk arises from the short-term lending of surplus funds to banks and building societies as well as credit exposures to the Council's customers. It is the policy of the Council to place deposits only with a limited number of institutions that meet strict criteria as defined in the Council's Treasury Management Strategy (Cabinet February 2012). The Council also had a policy throughout the year of limiting deposits with institutions to a maximum of £10M.



The following table summarises the Council's potential maximum exposure to credit risk, based on past experience and current market conditions.

	<b>Amount at 31st March 2013</b>	<b>Historical Experience of Default</b>	<b>Historical Experience Adjusted for Market Conditions</b>	<b>Estimated Maximum Exposure to Default</b>
	<b>£'000</b>	<b>%</b>	<b>%</b>	<b>£'000</b>
Deposits with Banks and Building Societies	52,177	0.0	0.0	0
Debtors				
Long Term Debtors	17	0.0	0.0	0
Sundry Debtors	3,755	32.7	32.7	1,228
Housing Debtors	63	88.9	88.9	56
Other Debtors	153	8.5	8.5	13
<b>Total</b>	<b>56,165</b>			<b>1,297</b>

The historical experience of default represents the Council's estimation of debts that will not be paid. This amount is fully written down in the bad debt allowance. The Council is not aware of any wider market conditions that will alter the allowance already made.

The Council does not allow credit for customers. The following table provides a breakdown of amounts past due included in Sundry Debtors.

	<b>31st March 2012 £'000</b>	<b>31st March 2013 £'000</b>
Less than three months	77	330
Three months to one year	256	144
More than one year	393	387
<b>Total</b>	<b>726</b>	<b>861</b>

#### Foreign Exchange Risk

The Council has no financial assets or liabilities denominated in foreign currencies and therefore has no exposure to loss arising from movements in exchange rates.

#### **29. Related Party Transactions**

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

Central Government has effective control over the general operations of the Council – it is responsible for providing the statutory framework within which the Council operates, provides significant funding in the form of grants and prescribes the terms of many of the transactions that the Council has with other parties. Grants received from Government departments are set out in more detail in note 7.

Members of the Council have direct control over the Council's financial and operating policies. The amount paid to Councillors is disclosed in note 10. All 48 Councillors, standards committee, non-Council members and Heads of Service have confirmed that they have not had material transactions with the Council during the financial year.

During 2012/13 £339,000 (2011/12 £354,000) in grants was paid to voluntary organisations in which seven Councillors were officially appointed. The grants were made with proper consideration of declarations of interest. The relevant Members did not take part in any discussion or decision relating to the grants. The most significant of these grants are reported annually to Cabinet prior to the start of the financial year.

### **30. Group Accounts**

For 2012/13 it is not considered that there are any bodies that meet the requirements for Group Accounting and as such these accounts solely represent Test Valley Borough Council's transactions and balances in the year.

### **31. Contingent Assets**

As part of the Large Scale Voluntary Transfer Agreement (LSVT), the Council is entitled to receive income generated from Right-to-Buy sales of former Council properties. In 2012/13 the income generated from this source was £60,000 (2011/12 £105,000). The generation of this income is outside of the Council's control and is not quantifiable for future years.

### **32. Contingent Liabilities**

#### Large Scale Voluntary Transfer

As part of the LSVT the Council was required to provide environmental warranties to both Testway Housing and their lenders for a period of 36 years (to expire 19<sup>th</sup> March 2036). There was no local knowledge of serious problems in this regard, and considering the likely costs involved in obtaining insurance cover, it is currently not considered to be cost effective to purchase insurance against this risk.

The Council also provided a guarantee to Testway Housing in respect of any pension deficit arising in respect of staff transferred from the Council to Testway Housing in the event that Testway Housing is wound up. 164 staff were transferred as part of LSVT.

Testway Housing has since merged with two other Housing Associations to form a new company – Aster Communities. At the time of the merger in 2011 the Council re-affirmed its commitment in respect of this guarantee. At that time the guarantee related to 63 staff (11 active members and 52 deferred pensioners).

There is no information to suggest that Aster Group is not a going concern, neither is it possible to assess the potential deficit. As a result it is not considered appropriate to provide for any liability in this regard.

#### Municipal Mutual Insurance Ltd – Scheme of Arrangement

In 1992 Municipal Mutual Insurance Ltd. (MMI), which the Council and many other local authorities had insured with, experienced trading difficulties. The Company's creditors agreed a "Scheme of Arrangement" which allowed the Company to work towards a solvent run-off (of the company) until all outstanding claims were settled.

On 28<sup>th</sup> March 2012, the Supreme Court ruled the Employers' Liability Policy Trigger Litigation relating to mesothelioma claims which found against MMI. The judges ruled that the insurer who was on risk at the time of an employee's exposure to asbestos was liable to pay compensation for the employee's mesothelioma.

If the Company becomes insolvent, there is a claw back arrangement where the creditors are required to pay a proportion of the claims paid. For Test Valley Borough Council, total claims outstanding were £354,000 as at 31 March 2013. No levy is made against the first £50,000 of claim payments; therefore the Council's maximum liability was £304,000

On 13<sup>th</sup> May 2013, the Scheme Administrator estimated that an initial Levy of 15% of the maximum liability (£46,000) would be applicable to the Council. No indications have been given as to whether further levies will be necessary. Due to the overall immateriality of this estimate no provision has been included in the accounts.

### **33. Events After the Balance Sheet Date**

#### Property disposal

At the full Council meeting on 17<sup>th</sup> April 2013 it was resolved that the Council's former officers at Duttons Road, Romsey be sold subject to further work regarding car parking options in Romsey. The sale had not been completed at the Balance Sheet date and consequently this note is included for disclosure purposes only.

#### Non-Domestic Rates – Appeals outstanding at 31<sup>st</sup> March 2013

When the new arrangements for the retention of business rates come into effect on 1<sup>st</sup> April 2013 local authorities will assume the liability for refunding ratepayers who have successfully appealed against the rateable value of their properties on the rating list.

This will include amounts that were paid to central government in respect of 2012/13 and prior years. Previously, such amounts would not have been recognised as income by the Council, but would have been transferred to DCLG.

When the Council assumes these liabilities on 1<sup>st</sup> April 2013 a provision will need to be recognised. As the event that triggers the liability does not occur until after the Balance Sheet date no provision is included in these accounts.

It is estimated that the total liability for appeals up to 31<sup>st</sup> March 2013 is £2.714M of which this Council's shares is £1.086M.

### **34. Date Accounts Authorised for Issue**

The pre-audited Statement of Accounts was authorised for issue by the Head of Finance on 28<sup>th</sup> June 2013.

Following the completion of the audit, the final Statement of Accounts were authorised for issue by the Head of Finance on 26<sup>th</sup> September 2013 and approved by the General Purposes Committee on 30<sup>th</sup> September 2013.

## THE COLLECTION FUND

This account reflects the statutory requirement for billing authorities to maintain a separate Collection Fund which 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.

<b>INCOME AND EXPENDITURE ACCOUNT</b>				
	<b>2011/12</b>		<b>2012/13</b>	
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
<b><u>INCOME</u></b>				
Council Tax	59,640		60,192	
Transfers from General Fund				
Council Tax Benefits	5,515		5,462	
Business Ratepayers	43,109		45,284	
<b>TOTAL INCOME</b>		<b>108,264</b>		<b>110,938</b>
<b><u>EXPENDITURE</u></b>				
Precepts				
Hampshire County Council	47,613		48,057	
Hampshire Fire Authority	2,816		2,842	
Hampshire Police Authority	6,709		6,772	
Test Valley Borough Council	5,887		5,942	
Parishes	1,069		1,085	
Payments to preceptors in respect of previous surpluses	356		737	
	64,450		65,435	
Council Tax Bad & Doubtful Debts				
Written Off	61		90	
Provisions	136		151	
	197		241	
NNDR Net Payment to the National Pool	42,930		45,101	
NNDR Cost of Collection	179		183	
	43,109		45,284	
<b>TOTAL EXPENDITURE</b>		<b>107,756</b>		<b>110,960</b>
<b>Surplus / (Deficit) for the year</b>		<b>508</b>		<b>(22)</b>
<b>Balance at the start of the year</b>		<b>1,093</b>		<b>1,601</b>
<b>Surplus at the end of year</b>		<b>1,601</b>		<b>1,579</b>

## NOTES TO THE COLLECTION FUND

The starting point for the income from Business Ratepayers is the Rateable Value of each hereditament multiplied by the (national) Non Domestic Rating Multiplier for the year, which was 45.8p in 2012/13.

Net income is derived following adjustments in respect of:

- Transitional Relief
- Mandatory and Discretionary Relief in respect of charities and kindred organisations
- Small Business Relief
- Hardship Relief
- Empty Property Relief and
- Bad debts

The total non-domestic rateable value at the 31st March 2013 was £118,522,298.

The income from Council Tax is directly linked to the banding of properties based on their valuations. The number of chargeable dwellings in each valuation band was converted to an equivalent number of Band D dwellings, which was used to calculate the Council Tax base of 46,303 for 2012/13.

The Collection Fund balance on the 31st March 2013 was a surplus of £1.579M which is included within the Balance Sheet. Amounts in respect of Test Valley Borough Council are contained within the reserves section of the Balance Sheet; amounts due to the other major preceptors are shown within creditors. The surplus does not include the NNDR balance, which forms part of Council's debtor balances.

The surplus will be shared amongst the major preceptors (Test Valley's share is 11.16%) and will be included in the Council Tax calculations for 2013/14 and 2014/15.

<b>Major Preceptors on the Collection Fund</b>				
<b>2011/12</b>			<b>2012/13</b>	
<b>Total</b>		<b>Precept</b>	<b>Share of</b>	<b>Total</b>
<b>£'000</b>		<b>£'000</b>	<b>31/03/12</b>	<b>£'000</b>
			<b>Surplus</b>	
			<b>£'000</b>	<b>£'000</b>
47,877	Hampshire County Council	48,057	548	48,605
2,832	Hampshire Fire Authority	2,842	32	2,874
6,746	Hampshire Police Authority	6,772	77	6,849
5,926	Test Valley Borough Council	5,942	80	6,022
<b>63,381</b>	<b>Total</b>	<b>63,613</b>	<b>737</b>	<b>64,350</b>

**COUNCIL TAX BASE - ANALYSIS OF PROPERTIES**

<b>BAND</b>	<b>A*</b>	<b>A</b>	<b>B</b>	<b>C</b>	<b>D</b>	<b>E</b>	<b>F</b>	<b>G</b>	<b>H</b>	<b>TOTAL</b>
Full Charge	1	987	4,266	8,317	6,350	6,066	3,685	2,785	375	<b>32,832</b>
10% Discount	0	27	30	47	31	45	22	50	18	<b>270</b>
25% Discount	0	1,382	3,713	4,016	2,283	1,454	665	432	31	<b>13,976</b>
50% Discount	0	72	53	82	106	46	35	41	7	<b>442</b>
100% Exempt	0	167	193	577	276	145	61	76	4	<b>1,499</b>
Net Adjustment for Properties Charged at a Lower Band	1	25	72	(41)	0	(23)	4	(23)	(15)	<b>0</b>
Total Number of Properties	2	2,660	8,327	12,998	9,046	7,733	4,472	3,361	420	<b>49,019</b>
Chargeable Number of Properties	1.00	2,073.00	7,092.25	11,393.50	8,130.75	7,202.00	4,212.25	3,154.50	410.75	<b>43,670</b>
Ratio to Band D	5/9	6/9	7/9	8/9	1	11/9	13/9	15/9	2	
Band D Equivalent	0.6	1,382.0	5,516.2	10,127.6	8,130.8	8,802.4	6,084.4	5,257.5	821.5	<b>46,123.0</b>
Provision for Bad Debts	0.0	(13.1)	(52.4)	(96.2)	(77.2)	(83.6)	(57.8)	(49.9)	(7.8)	<b>(438.0)</b>
Crown Contributions										<b>618.0</b>
<b>Total Band D Equivalent</b>										<b>46,303</b>

## GLOSSARY OF TERMS

<b>Accounting Period</b>	The period of time covered by the accounts, normally a period of twelve months, commencing on 1 <sup>st</sup> April for local authority accounts.
<b>Accruals</b>	This is the accounting concept that income and expenditure are recorded as they are earned or incurred, rather than when money is received or paid.
<b>Actuarial Gains &amp; Losses</b>	Actuaries assess financial and non-financial information provided by the Council to project levels of future pension fund requirements. Changes in actuarial deficits or surpluses can arise leading to a loss or gain because: - events have not coincided with the actuarial assumptions made for the last valuation (experience gains and losses) - the actuarial assumptions have changed.
<b>Assets</b>	Items of worth which are measurable in terms of value.
<b>Bad Debt Allowance</b>	An allowance that is made against income that is due to the Council that it is considered is unlikely to be recovered.
<b>Current assets</b>	Assets which may change in value on a day to day basis (e.g. stocks), or which are expected to be fully recovered within one year (e.g. short-term deposits with banks).
<b>Balances</b>	The reserves of the Council, both revenue and capital, which represent the accumulated surplus of income over expenditure on any of the funds.
<b>Capital Expenditure</b>	Expenditure on the acquisition or improvement of tangible assets which yield benefits to the Council for more than one year.
<b>Capital Receipts</b>	Monies received from the sale of non-current assets, which may be used to finance new capital expenditure.
<b>Cash and Cash Equivalents</b>	Cash and cash equivalents are cash and deposits held in banks that are readily convertible into known amounts of money without penalty or time delays.
<b>Collection Fund</b>	This is a statutory fund separate from the main accounts of the Council. It records all income due from Council Tax and National Non-Domestic Rates. It shows the precept payments due to Test Valley Borough Council, Hampshire County Council, Hampshire Police Authority and Hampshire Fire Authority.
<b>Contingent Assets</b>	Future income owed to the Council arising from a past event for which the amounts cannot be accurately quantified at the balance sheet date.
<b>Contingent Liabilities</b>	Amounts potentially payable to individuals or organisations which may arise in the future but which at this time cannot be determined accurately.
<b>Contingent Rent</b>	A rent income that is based on performance. This could be as a % of turnover of net profit.
<b>Creditors</b>	Amounts owed by the Council for work done, goods received or services rendered within the accounting period, but for which payment was not made at the Balance Sheet date.
<b>Current Service Cost</b>	The increase in the present value of the pension scheme liabilities expected to arise from employee service in the current period.
<b>Debtors</b>	Amounts owed for work or services rendered by the Council within the financial year and which have not been paid.
<b>Depreciated Replacement Cost</b>	A valuation method used as a proxy for market value of assets of a specialised nature where no market exists to gauge fair value. It is based on the estimated cost to replace the asset less an allowance for the age of the asset being valued.

<b>Depreciation</b>	The measure of the wearing out, consumption, or other reduction in the useful economic life of a fixed asset.
<b>Effective Interest Rate</b>	The Effective Interest Rate is the average rate of interest over the life of a loan. It takes into account known changes in interest rates over the period of a loan, e.g. discounted rates in early periods.
<b>Expected Rate of Return on Assets</b>	The average rate of return expected over the remaining life of the assets held by the pension scheme.
<b>Expenditure</b>	Amounts paid by the Council for goods received or services rendered of either a capital or revenue nature. This does not necessarily involve a cash payment since expenditure is deemed to have been incurred once the goods or services have been received even if they have not been paid for.
<b>Fair Value</b>	The value an asset or liability could reasonably be transferred for in an arm's length transaction with another party who is properly informed about that item.
<b>Financial Instruments</b>	These represent any item that will cause the Council to receive or pay money. This ranges from sundry debtors and creditors to cash investments. The only items that are excluded from this are Council Tax and Business Rates.
<b>General Fund</b>	This is the main revenue fund of the Council includes the net cost of all services financed by local taxpayers and government grants.
<b>Heritage Assets</b>	Assets held primarily for their historical, artistic, scientific, technological, geophysical or environmental qualities and maintained for their contribution to knowledge and culture.
<b>IFRS</b>	International Financial Reporting Standards are the guidelines within which the Council's accounts have to be prepared.
<b>Impairment of Assets</b>	The reduction of the value of an asset through either market price changes or reduction in the asset's ability to deliver services e.g. if affected by fire or flood. Impairments as a result of market price changes from previous years may be reversed as market conditions change.
<b>Income</b>	Amounts due to the Council for goods supplied or services rendered of either a capital or revenue nature. This does not necessarily involve cash being received since income is deemed to have been earned once the goods or services have been supplied even if cash has not been received.
<b>Intangible Assets</b>	Assets that have no physical form but which provide economic benefits to the Council. Examples include software licences (that last over one year) and rights to hold markets in Andover High Street.
<b>Interest on Pension Liabilities</b>	The expected increase during the period in the present value of pension scheme liabilities because the benefits are one year closer to settlement.
<b>Inventories</b>	Stocks and work-in-progress are included under this heading.
<b>Investment Property</b>	Properties owned by the Council which are held solely for income generation purposes or for appreciation in sale value.
<b>Leasing</b>	Where a rental is paid for the use of an asset for a specified period of time. Two forms of lease exist. Under a Finance Lease the asset is treated as the property of the lessee. Under an Operating Lease the asset remains the property of the lessor and the lease costs are a revenue expense of the Council.
<b>Liabilities</b>	Amounts due to individuals or organisations which will have to be paid at some time in the future. Current liabilities are usually payable within one year of the Balance Sheet date.
<b>Non-Current Assets</b>	Assets which are owned by the Council which have a useful life of more than one year.



<b>National Non-Domestic Rates (NNDR)</b>	Businesses pay Non-Domestic rates instead of Council Tax. Each year, the Government sets the charge based on a fixed percentage of the business's rateable value, and the charge is collected by the Council. Business rates are pooled nationally and a share is given back to the Council in the form of a grant.
<b>Past Service Cost</b>	Discretionary benefits awarded on early retirement are treated as past service costs.
<b>Precepts</b>	The method by which an authority obtains the income it requires by making a levy on an appropriate billing authority. The billing authority (this Council) must then charge for the precepted amount. For example, the Council Tax bills raised by the Council include the amounts precepted by Hampshire County Council, Fire and Police Authorities and Parish Councils.
<b>Present Value</b>	The current estimated value of future assets or liabilities taking into account the estimated effects of the time value of money.
<b>Property Plant and Equipment</b>	Tangible assets which yield benefit to the Council for a period of more than one year. They can be further classified into:
Land and Buildings	Property assets held and occupied, used or consumed by the Council in the direct delivery of services for which it has either statutory or discretionary responsibility e.g. Council offices.
Vehicles and Equipment	Items of plant and machinery used by the Council in the delivery of services e.g. refuse vehicles, grounds maintenance equipment.
Community assets	Assets that the Council intends to hold in perpetuity, which have no determinate finite useful life and may have restrictions on their disposal e.g. parks, works of art.
Infrastructure assets	These are inalienable assets, the benefit of which is received only by their continued use e.g. cycle routes, footpaths.
<b>Provision</b>	An amount set aside for expenditure in a future financial period as a result of an obligation arising from a past event. The obligation must be expected to result in a payment that can be reasonably estimated.
<b>Reserves</b>	
Usable	Amounts set aside for future purposes over which the Council has full discretion, subject to statutory regulations which require capital reserves to be used only to finance new capital expenditure.
Unusable	Amount included in the balance sheet that the Council is not able to apply to future expenditure.
<b>Revenue Contributions to Capital</b>	The method of financing capital expenditure directly from the General Fund.
<b>Revenue Expenditure</b>	Expenditure incurred on the day to day running of the Council. This mainly includes employee costs, general running expenses and contract payments.
<b>Revenue Expenditure Funded From Capital Under Statute</b>	Items of expenditure that are categorised as capital expenditure but do not generate new assets for the Council. The main examples of this are Disabled Facilities' Grants and grants to affordable housing projects.
<b>Revenue Support Grant</b>	This is a Central Government Grant paid each year as a contribution towards the cost of the Council's services in general.
<b>SerCOP</b>	The Service Accounting Code of Practice is published by CIPFA and defines where different items of income and expenditure should be shown on the Comprehensive Income & Expenditure Statement.

## **Test Valley Borough Council**

### **Annual Governance Statement 2012/13**

#### **Scope of responsibility**

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

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

The Council has approved and adopted a local code of corporate governance, which is consistent with the principles of the CIPFA/SOLACE Framework *Delivering Good Governance in Local Government*. A copy of the code is on the Council's website at:

<http://www.testvalley.gov.uk/aboutyourcouncil/corporatedirection/local-code-corporate-governance>, or can be obtained from the Head of Legal and Democratic Services. This statement explains how the Council has complied, and continues to comply, with the principles underlying this code and also meets the requirements of regulation 4[2] of the Accounts and Audit (England) Regulations 2011, which requires all relevant bodies to prepare an annual governance statement.

#### **The purpose of the governance framework**

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

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

The governance framework has been in place at the Council for the year ended 31 March 2013 and will continue to be developed during the coming year.

### **The governance framework**

The key elements of the systems and processes that comprise the Council's governance arrangements are as follows:

- The Council has fulfilled the following key roles (now formally adopted as part of the Local Code of Governance):
  - To promote the well-being of the area and provide leadership to the community;
  - To ensure the provision of high quality services provided in-house, by private sector companies, jointly with other Councils or agencies, or by the voluntary sector;
  - To be accountable and provide stewardship for the use of public funds and resources;
  - To build a strong sense of community.

In fulfilling these roles the Council is committed to following the six core principles of good corporate governance identified in the CIPFA/SOLACE Guidance and how the Council is working towards achieving these principles is set out in the document "Principles of Good Governance" which is attached to the code.

- The Council has a clear vision of its purpose and desired outcomes for the short, medium and long term. These are encapsulated in its Community Plan, Corporate Plan and a range of corporate and service strategies. There has been considerable consultation and stakeholder involvement in the development and progression of these plans and strategies and they are made available to the public through a variety of means including the Council's website and Test Valley News.
- The Council has developed a Corporate Plan for 2011 / 2015 "Doing things differently" which was approved by the Council's Cabinet on 13/04/2011. It has four main aims with a clear action plan detailing how these aims will be delivered. It is supported by a performance management framework (including performance indicators) to measure progress. In developing the plan previous priorities were reviewed, extensive consultation was undertaken with local people and elected Councillors whilst also considering external influences on the borough such as government policy
- The Council formally reviews its progress against its corporate priorities through an Annual Performance Report which is presented to Overview and Scrutiny Committee (OSCOM) and the Cabinet. In March 2012, the Overview and Scrutiny Committee, following a review of its effectiveness, introduced a system of lead members. The four lead

Members each have responsibility for a Corporate Plan Priority. Once an area for review has been identified, the Lead Member gives a presentation to the full committee seeking contributions to the scope of the review. A full report, presented by the Portfolio Holder, is then subsequently presented to the Committee. This has ensured the introduction of more effective and focused reviews.

- Two key strategic partnerships have historically existed in the Borough, namely the Test Valley Partnership (the Local Strategic Partnership) and the Test Valley Community Safety Partnership. The national and local level environment in which both operate has changed considerably since their initial creation. In order to improve efficiency and effectiveness both bodies have now agreed to come together, as one body. This is assisting partners in establishing a single strategic direction, ensuring statutory requirements are met and saving partners time in attending different Board meetings.
- The Council has in place a Medium Term Financial Strategy, updated annually, which supports the aims of the Corporate Plan.
- The quality and value for money of services provided to users is measured through the Authority's performance management system. This includes the measurement and review of performance against national and local performance indicators and actions taken to address areas for improvement. Performance is monitored regularly throughout the year by Performance Boards.
- The roles of the Cabinet, OSCOM, and other committees of the Council as well as specific roles assigned to the Leader, Deputy Leader, Portfolio Holders and senior officers of the Council are defined and documented within the Council's Constitution. The Constitution also clearly identifies the powers, duties and responsibilities delegated to the Deputy Leader, Portfolio Holders and Officers, and includes rules for how Council and committee meetings should operate and the relationship between Members and Officers.
- The conduct of Members and Officers is regulated by separate codes of conduct within the Council's Constitution. The Council's General Purposes Committee together with the Ethics Sub-Committee promote high standards of conduct by Members and consider complaints made against Members. On 4<sup>th</sup> July, 2012, the Council adopted a new Member Code of Conduct, which complies with the requirements of Section 28 of the Localism Act 2011. A comprehensive set of Human Resources policies ensures compliance with employment legislation and promotes good personnel practices. These include disciplinary and capability processes to deal with conduct or performance which is unacceptable. These policies and procedures are regularly reviewed and revised.
- The conduct of day to day Council business is regulated through policies and procedures such as Contract Standing Orders and

Financial Regulations. These accord with good professional practice and were fully revised in 2012. The delegations to Members and Officers are kept continually under review and revised as appropriate.

- Elected members and all officers are aware of their obligations under equality legislation, as well as the standards of behaviour and language which are expected from representatives and employees of the Council. Equality impact assessments are an important and integral part of the Council's decision-making process. In March 2012, the Council published its Corporate Equalities Objectives for 2012-2016. It has two main objectives: (a) To improve the Council's evidence-base in respect of residents and staff and (b) To make sure that residents can have involvement in how we develop and deliver our services.
- Section 11 of the Children Act 2004 places key responsibilities on district councils (as a statutory partner) with regard to safeguarding children and young people. No Secrets 2000 and The Vulnerable Groups Act 2006 also place an obligation on the Council, as a partner agency working with vulnerable adults, to ensure that it pays due regard to their safeguarding. As a result, the Council has adopted a Safeguarding Children and Vulnerable Adults Policy to help ensure its compliance with these duties. Every two years, as a statutory partner of the Hampshire Safeguarding Children's Board (HSCB), the Council is required to complete a Section 11 audit as a self-assessment tool to indicate the position in respect of its safeguarding duties. The 2012 Audit identified that Test Valley Borough Council is compliant with Section 11 of the Children Act. It also recognised the Council's good practice in sustaining compliance over the last two years.
- The Council's approach to risk management is outlined in its Risk Management Strategy. Corporate risks are reviewed on a quarterly basis and progress in managing the corporate risk register is reported to OSCOM on an annual basis. The Economic Portfolio Holder is the Council's Member Champion for risk management and risk management is embedded within the Council's processes e.g. reports to decision-making committees (Cabinet and General Purposes) use a template which includes a section on risk assessment which must be completed before the report can be considered.
- The Council's OSCOM Audit Panel meets quarterly to undertake the core functions of an "audit committee". The terms of reference for the Audit Panel include:

#### **Audit Activity**

- To consider the Internal Audit Partnership Manager's annual report and opinion, and a summary of internal audit activity (actual and proposed) and the level of assurance it can give over the Council's corporate governance arrangements.
- To consider summaries of specific internal audit reports as requested.

- To consider reports dealing with the management and performance of the providers of internal audit services.
- To consider a report from internal audit on agreed recommendations not implemented within a reasonable timescale.
- To consider the external auditor's annual letter, relevant reports, and the report to those charged with governance.
- To consider specific reports as agreed with the external auditor.
- To comment on the scope and depth of external audit work and to ensure it gives value for money.
- To liaise with the Audit Commission over the appointment of the Council's external auditor.
- To commission work from internal and external audit.

### **Regulatory Framework**

- To maintain an overview of the Council's constitution in respect of contract standing orders, financial regulations and codes of conduct and behaviour.
  - To review any issue referred to it by the chief executive or a director, or any Council body.
  - To monitor the effective development and operation of risk management and corporate governance in the Council.
  - To monitor Council policies on whistleblowing and the anti-fraud, anti-corruption and anti-bribery strategies and the Council's complaints process.
  - To oversee the production of the authority's Annual Governance Statement and to recommend its adoption.
  - To consider the Council's arrangements for corporate governance and agreeing necessary actions to ensure compliance with best practice.
  - To consider the Council's compliance with its own and other published standards and controls.
- The Chief Executive is the Council's Head of Paid Service and has overall corporate management and operational responsibility for the way in which the Council delivers its services. The Head of Legal and Democratic Services is designated as the Council's Monitoring Officer and is responsible for ensuring that the Council complies with relevant laws and regulations and internal policies such as Contract Standing Orders. The Head of Finance is designated as the Council's Section 151 Officer with responsibility for ensuring the "proper administration of financial affairs". The Head of Finance also has responsibility under section 114 of the Local Government Finance Act 1988 for reporting to the Council and the external auditor if the Council has made, or is about to make, expenditure which is unlawful. These three statutory officers meet as necessary during the year to discuss significant corporate issues as they arise.
  - The CIPFA statement on the Role of the Chief Financial Officer in Local Government (2010) requires the Chief Finance Officer to report directly to the Chief Executive and be a member of the 'Leadership Team', of equal status to other members. The Council does not strictly comply with this requirement in that the Head of Finance is not part of

the Strategic Management Team (Chief Executive and two Corporate Directors) and reports to one of the Corporate Directors. However, in practice, the Head of Finance is able to report directly to the Chief Executive and Members as and when required, is a member of the Officers' Management Team, and is involved and consulted in all matters which have financial implications for the Council.

- The Council's Constitution contains a Confidential Reporting Code for Employees which safeguards "whistle-blowers" who raise legitimate concerns about the Council's actions and specifies how their concerns should be addressed. Financial Regulations require all staff to raise concerns about the use or misuse of Council resources with the Head of Finance or Internal Audit who will carry out an independent investigation of the circumstances. Internal Audit also actively encourage staff to raise matters of concern through "Speak Up" campaigns. A form is available on the Council's Intranet for staff to raise concerns (anonymously if desired) about the use of Council resources and this facility has been extended to the website so that members of the public can raise concerns in this area. The Council also has a formal complaints procedure for members of the public to raise issues, e.g. where they are dissatisfied with the service they have received, and an annual report is prepared for OSCOM summarising these complaints and how they were resolved.
- The Council has a detailed Anti-Fraud and Corruption Policy which sets out the roles, responsibilities of officers and Members and actions to be taken when fraud or corruption is discovered. In addition, an Anti-Bribery Policy was approved in July 2012 to address the requirements of the Bribery Act 2010.
- The Head of Administration is responsible for identifying and providing for Members' training needs. All new Members are provided with induction training to assist them with understanding and successfully carrying out their different roles and training is provided on specific issues where appropriate e.g. planning. The Councillor Induction and Development Guide was fully revised in 2011 and is given to all Members. A number of training sessions for Members in specific roles were held during 2012. A questionnaire is sent out to all Members every year which informs the programme of training to be offered during the year. All officers also receive induction training and appropriate professional and skills training and development identified, for instance, through annual performance discussions.
- The Council has in place various channels of communication with the community and other stakeholders. The Council's Consultation Portal provides a single link to all our current 'live' consultations, giving residents the opportunity to get involved, as well as access to details of the feedback from previous consultations:  
(<http://www.testvalley.gov.uk/aboutyourcouncil/consultation-portal>).  
The portal also enables residents to record their satisfaction with some of our key services, such as CSU and building control. The

consultation portal is supported by Community Engagement Quality Standards which provide the guiding principles that inform the way we carry out our activities to inform, involve and consult local people. The purpose of the quality standards are to support the Council in developing the most appropriate methods of engaging with local people and to ensure a consistent approach. Publications such as Test Valley News are sent to all households and the Council's website is an important source of information about the Council and its services. The Council's new website was launched in February 2012 to make it more accessible to residents and businesses of Test Valley and to make it easier to undertake transactions online. The Council has an External Communication Strategy and Consultation Strategy which promote communication with stakeholders.

- The Council has identified its key partnerships and promotes good governance in those. The Council's Contract Standing Orders and Financial Regulations contain specific sections on partnerships and identify officer responsibilities in relation to the management and involvement in partnerships. Protocols and agreements are put in place for the management of significant partnerships.

### **Review of effectiveness**

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

The effectiveness of the governance framework is maintained and reviewed through a number of mechanisms and processes:

- Full Council is ultimately responsible for maintaining, revising and ensuring compliance with the Council's Constitution. The Head of Legal and Democratic Services reviews the Constitution at least annually to ensure that it is up to date with current legislation and best practice.
- The Cabinet has responsibility for the day to day operation of the Council's business unless that business is delegated specifically to another committee (e.g. Planning, Licensing) and ensuring that governance arrangements and compliance is adequate for the conduct of that business.
- As part of the Council's open and transparent approach, Overview and Scrutiny Committee has responsibility for scrutinising the decisions of the Cabinet and reviewing the Council's policies and functions and making recommendations to the Cabinet as appropriate.



- The Council's OSCOM and its Audit Panel takes responsibility for audit and risk management issues, reviewing the Council's work in these areas and monitoring the progress and performance of both Internal and External Audit.
- The Council's General Purposes Committee together with the Ethics Sub-Committee have the role of promoting and maintaining high standards of conduct amongst Members and assisting them to observe the Authority's Code of Conduct. The work of the Ethics Sub-Committee is supported by the appointment of three Independent Persons and Parish representatives as required by the Localism Act 2011, The General Purposes Committee may receive reports as to the operation of the Code of Conduct in addition to which the Ethics Sub-Committee will receive complaints about Member conduct and determine such complaints and direct or recommend any further action required consistent with the Localism Act 2011 and associated regulations.
- The Council's Internal Audit team, located within the Finance Service, carries out a continuous review of the Council's systems to provide independent assurance that the control environment is effective in achieving the Council's objectives. The team objectively examines, evaluates and reports on the adequacy of the control environment as a contribution to the proper, economic, efficient and effective use of the Authority's resources. The performance of the Internal Audit team is monitored by the Council's Audit Panel and Section 151 Officer. The Internal Audit Partnership Manager presents the Internal Audit Strategy and Annual Audit Plan to the Audit Panel and produces an Annual Report giving an opinion of the adequacy of the Council's systems of internal control.

***On the basis of Internal Audit work completed in 2012/13, the Internal Audit Partnership Manager is able to provide Substantial assurance in respect of the Council's risk management, control and governance arrangements. "Substantial Assurance" means that systems in place are generally sound, but some weaknesses have been identified which may put some of the control objectives at risk. These weaknesses have been identified and form the basis of the action plan appended to this Statement.***

- The Council is regularly reviewed by the Audit Commission (now Ernst and Young LLP) who independently examine the Council's accounts and financial systems and who present an Annual Governance Report to Members, the latest available covering the financial year 2011/12. This was a positive report with an unqualified opinion on the Council's accounts, system of internal control and arrangements to achieve value for money.

We have been advised on the implications of this review of the effectiveness of the governance framework and of any significant governance issues. A plan to address weaknesses and ensure continuous improvement of the system is in place as shown in the attached annex 1.

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

**Signed:** ..... **Signed:** .....

Leader of the Council

Chief Executive

## Significant governance issues

Annex 1

The following identifies the significant governance issues to be addressed, the proposed action, timescale and lead officer.

Issue	Action to be Taken	Timescale	Lead Officer
There is currently no formal strategy in place for insurance. CIPFA guidance Audit Committees – Practical Guidance for Local Authorities (2005) recommends that an Insurance Strategy is something that should be considered in relation to its assurance role.	An Insurance Strategy to be produced in accordance with best practice.	30/06/13	Head of Finance.
The Local Code of Governance was last reviewed in September 2012.	The Local Code of Governance to be reviewed and revised as appropriate.	30/09/13	Head of Legal & Democratic
Virements are not always applied in accordance with Financial Procedure rules to manage budgets that are over spending during the year.  Non-compliance with Financial Procedure Rules and Contract Standing Orders has highlighted a need for training on these policies together with the use of the Council's Financial Information (efin) System.	Controls to be reviewed and refresher training to be provided in 2013-14.	30/10/13	Head of Finance