

## Notice of Meeting

# General Purposes Committee

**Date:** Thursday, 29 September 2016

**Time:** 16:00

**Venue:** Conference Room 1, (Beech Hurst), Beech Hurst, Weyhill Road,  
Andover, Hampshire, SP10 3AJ

**For further information or enquiries please contact:**

Emma Horbury - **01264 368001**

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**Legal and Democratic Service**

Test Valley Borough Council,  
Beech Hurst, Weyhill Road,  
Andover, Hampshire,  
SP10 3AJ

[www.testvalley.gov.uk](http://www.testvalley.gov.uk)

The recommendations contained in the Agenda are made by the Officers and these recommendations may or may not be accepted by the Committee.

**PUBLIC PARTICIPATION SCHEME**

*If members of the public wish to address the meeting they should notify the Legal and Democratic Service at the Council's Beech Hurst office by noon on the working day before the meeting.*

## Membership of General Purposes Committee

### MEMBER

Councillor I Carr

Councillor M Hatley

Councillor N Adams-King

Councillor A Dowden

Councillor P Giddings

Councillor I Hibberd

Councillor A Hope

Councillor P Hurst

Councillor I Jeffrey

Councillor P North

Councillor G Stallard

### WARD

Charlton

Ampfield and Braishfield

Blackwater

Valley Park

Bourne Valley

Romsey Extra

Over Wallop

Tadburn

Dun Wallop

Alamein

Anna

# **General Purposes Committee**

Thursday, 29 September 2016

## **AGENDA**

**The order of these items may change as a result of members  
of the public wishing to speak**

- 1 Apologies**
- 2 Public Participation**
- 3 Declarations of Interest**
- 4 Urgent Items**
- 5 Minutes of the meeting held on 22 June 2016**
- 6 Statement of Accounts 2015/16 4 - 112**

This report presents Ernst & Young's Annual Audit Results Report and the 2015/16 Statement of Accounts for approval.

## **ITEM 6 Statement of Accounts 2015/16**

Report of the Head of Finance

### **Recommended:**

- 1. Ernst & Young’s Annual Audit Results Report (Annex 1):**
  - a. That the matters raised in the report be considered before authorising the financial statements for issue,**
  - b. That the proposed audit opinion and value for money conclusion be noted.**
- 2. That the letter of representation (Annex 2) be approved.**
- 3. That the audited Annual Statement of Accounts for the financial year 2015/16 (Annex 3) be approved.**

#### **SUMMARY:**

- The Council is required to prepare an Annual Statement of Accounts and have those accounts audited. This report presents the audited Annual Statement of Accounts for approval together with the Annual Audit Results Report of the Council’s external auditors, Ernst & Young.
- The Statement of Accounts is presented with an unqualified opinion; this means the auditors found no unadjusted material errors or misstatements in the accounts.

### **1 Introduction**

- 1.1 The Council is required to produce and approve an Annual Statement of Accounts for each financial year.
- 1.2 The accounts for the year ended 31 March 2016 have now been audited by Ernst & Young and the Annual Statement of Accounts, together with the auditor’s Annual Audit Results Report are presented here for approval.

### **2 Ernst & Young’s Annual Audit Results Report**

- 2.1 As part of the reporting process, an Ernst & Young director produces an Annual Audit Results Report (AARR). This is shown in Annex 1.
- 2.2 The AARR details findings in respect of the audit of the accounts and investigations into the Council’s arrangements for securing economy, efficiency and effectiveness in its use of resources.

- 2.3 An unqualified opinion has been given in respect of both the Annual Statement of Accounts and the Council's value for money arrangements. This means that the auditors found no material areas of concern as part of their audit.

### **3 2015/16 Statement of Accounts**

- 3.1 The accounts were prepared in accordance with statutory guidance and deadlines.
- 3.2 The Head of Finance approved the draft financial statements for audit on 30 June 2016. Following this, the accounts were submitted to Ernst & Young along with relevant working papers in order that the audit could be carried out.
- 3.3 There have been two amendments to the accounts since the Head of Finance approved them for audit:
- (a) Note 29 - last schedule - showing the movement in investments over the year:
    - Adding £125,000 re. the Hampshire Community Bank investment to the long term investments purchased in the year so that the total movement agrees to the movement in the balance sheet between short term and long term investments
  - (b) Reclassification in respect of expenditure on the Evolution 50 project:
    - £325,000 reclassified from debtors to Investment Property on balance sheet
    - Update to note 15 (Investment property) to include the £325,000 on property under construction
    - Update to note 21 (Debtors) to deduct the £325,000
    - Accounting policies (note 1.14) updated to include the wording: *Investment properties under construction are measured at fair value once it is possible to measure reliably the fair value of the investment property, and at cost before that date.*

These accounting adjustments had no effect on the "bottom line" position of the Council.

- 3.4 Before approving the Annual Statement of Accounts, Councillors should consider the Council's Annual Governance Statement shown at the end of the Statement of Accounts (Annex 3). This remains unchanged from the statement approved by Council on 29 June 2016.

### **4 Conclusion and reasons for recommendation**

- 4.1 The Statement of Accounts presented with this report is recommended to be approved by the General Purposes Committee as the Council's audited Statement of Accounts for 2015/16.
- 4.2 Ernst & Young has issued an unqualified opinion in respect of both the Annual Statement of Accounts and on the Council's ability to deliver value for money.

- 4.3 The reason for the recommendation is to comply with a statutory duty to approve the Council’s audited Statement of Accounts by 30 September each year.

<u>Background Papers (Local Government Act 1972 Section 100D)</u>			
<u>Confidentiality</u> It is considered that this report does not contain exempt information within the meaning of Schedule 12A of the Local Government Act 1972, as amended, and can be made public.			
No of Annexes:	3	File Ref:	
(Portfolio: Economic) Councillor Giddings			
Officer:	Will Fullbrook	Ext:	8201
Report to:	General Purposes Committee	Date:	29 September 2016

# Test Valley Borough Council

Audit Results Report - ISA (UK and Ireland) 260  
for the year ended 31 March 2016

September 2016

Ernst & Young LLP



## Contents

<b>1. Executive summary .....</b>	<b>1</b>
<b>2. Responsibilities and purpose of our work.....</b>	<b>3</b>
<b>3. Financial statements audit .....</b>	<b>4</b>
<b>4. Value for money .....</b>	<b>6</b>
<b>Appendix A – Corrected audit differences .....</b>	<b>8</b>
<b>Appendix B – Independence.....</b>	<b>9</b>
<b>Appendix C – Auditor fees .....</b>	<b>10</b>
<b>Appendix D – Draft audit report.....</b>	<b>11</b>
<b>Appendix E – Management representation letter.....</b>	<b>14</b>
<b>Appendix F – Required communications with the audit committee .....</b>	<b>18</b>

In April 2015 Public Sector Audit Appointments Ltd (PSAA) issued “Statement of responsibilities of auditors and audited bodies 2015-16”. It is available from the Chief Executive of each audited body and via the PSAA website ([www.psaa.co.uk](http://www.psaa.co.uk))

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

The ‘Terms of Appointment from 1 April 2015’ issued by PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and statute, and covers matters of practice and procedure which are of a recurring nature.

This Audit Results Report is prepared in the context of the Statement of responsibilities. This report is intended solely for the use of the Members of the audited body. We, as appointed auditor, take no responsibility to any third party.

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



## 1. Executive summary

The National Audit Office's Code of Audit Practice (the Code) requires us to report to those charged with governance – the General Purposes Committee – on the work we have carried out to discharge our statutory audit responsibilities together with any governance issues identified. We also report to the Audit Panel as the committee with oversight of audit issues. This report summarises the findings from the 2015/16 audit which is substantially complete. It includes messages arising from our audit of your financial statements and the results of the work we have undertaken to assess your arrangements to secure economy, efficiency and effectiveness in your use of resources.

Below are the results and conclusions on the significant areas of the audit process.

Status of the audit	<p>We report progress on our audit of the financial statements of Test Valley Borough Council for the year ended 31 March 2016. A number of detailed work areas remain in progress at 20 September 2016. We will provide a verbal update on our conclusions on outstanding work areas at the 29 September 2016 meeting of the General Purposes Committee.</p> <p>Based on the work undertaken to date we anticipate issuing an unqualified opinion on the Council's financial statements. This is subject to the completion of our outstanding work.</p> <p>We expect to conclude that you have put in place proper arrangements to secure value for money in your use of resources.</p> <p>We have performed the procedures required by the National Audit Office (NAO) regarding the Whole of Government Accounts submission. We had no issues to report.</p> <p>We expect to issue the audit certificate at the same time as the audit opinion.</p>
Audit differences	<p>As of 20 September, our audit has identified one audit difference which our team has highlighted to management for amendment. This has been corrected during the course of our work and further details are provided at Appendix A. In addition to the item reported in Appendix A, we identified a small number of disclosure errors, which have been corrected by management. These adjustments have not had an impact on useable reserves.</p>
Scope and materiality	<p>In our audit plan presented at the 14 March 2016 Audit Panel meeting, we communicated that our audit procedures would be performed using a materiality of £1.38 million. We have reassessed this based on the actual results for the financial year and have reduced this amount to £1.30 million. This is due to a decrease in gross expenditure from 2014/15 (on which our planning materiality was based) to 2015/16.</p> <p>The threshold for reporting audit differences which impact the financial statements has decreased from £69,000 to £65,000. The basis of our materiality assessment is 2% of gross operating expenditure, which has remained consistent with prior years.</p> <p>Our work is being carried in accordance with our Audit Plan, with one clarification; we have not sought to test key controls for the key processes listed in our Audit Plan, as we determined a fully substantive approach to be the most efficient for our audit.</p>

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Significant audit risks	We identified the following audit risk during the planning phase of our audit, and reported this to you in our audit plan: <ul style="list-style-type: none"><li>• Risk of management override.</li></ul> The 'addressing audit risks' section of this report sets out the work performed to gain audit assurance over this issue.
Other reporting issues	We have no other matters we wish to report to date.
Control observations	We have not identified any significant deficiencies in the design or operation of an internal control that might result in a material misstatement in your financial statements.

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We would like to take this opportunity to thank the Council's staff for their assistance during the course of our work.

Kate Handy

Executive Director  
For and on behalf of Ernst & Young LLP

## 2. Responsibilities and purpose of our work

### The Council's responsibilities

The Council is responsible for preparing and publishing its Statement of Accounts, accompanied by the Annual Governance Statement (AGS). In the AGS, the Council reports publicly on the extent to which it complies with its own code of governance, including how it has monitored and evaluated the effectiveness of its governance arrangements in the year, and on any planned changes in the coming period.

The Council is also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

### Purpose of our work

Our audit was designed to:

- express an opinion on the 2015/16 financial statements and the consistency of other information published with them;
- report on an exception basis on the Annual Governance Statement;
- consider and report any matters that prevent us being satisfied that the Council had put in place proper arrangements for securing economy, efficiency and effectiveness in the use of resources (the value for money conclusion); and
- discharge our statutory duties and responsibilities as established by the Local Audit and Accountability Act 2014 and Code of Audit Practice.

In addition, this report contains our findings related to the areas of audit emphasis and any views on significant deficiencies in internal control or the Council's accounting policies and key judgments.

Alongside our work on the financial statements, we also review and report to the National Audit Office on your Whole of Government Accounts return. The extent of our review and the nature of our report are specified by the National Audit Office.

### 3. Financial statements audit

#### Addressing audit risks

We identified the following audit risk during the planning phase of our audit, and reported these to you in our Audit Plan. Here, we set out how we have gained audit assurance over this issue.

A significant audit risk in the context of the audit of the financial statements is an inherent risk with both a higher likelihood of occurrence and a higher magnitude of effect should it occur and which requires special audit consideration. For significant risks, we obtain an understanding of the entity's controls relevant to each risk and assess the design and implementation of the relevant controls.

Significant Risks (including fraud risks)	Audit procedures performed	Assurance gained and issues arising
<p><b>Risk of management override</b></p> <p>As identified in ISA (UK and Ireland) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.</p> <p>We identify and respond to this fraud risk on every audit engagement.</p>	<p>We:</p> <ul style="list-style-type: none"> <li>· Tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements.</li> <li>· Reviewed accounting estimates for evidence of management bias, focussing on those impacting the general fund.</li> <li>· Evaluated the appropriateness of accounting policies against Code guidance and for changes from the prior period.</li> <li>· Evaluated the business rationale for any significant unusual transactions</li> </ul>	<p>No indications of management override of controls were detected through our testing of journal entries or other adjustments made in the preparation of the financial statements</p> <p>Our review of accounting estimates impacting on the general fund did not identify any indications of management bias.</p> <p>We evaluated accounting policies as being appropriate for the Council and in compliance with the CIPFA Code of Practice. All changes in policy from the prior period were appropriate and had been properly applied.</p> <p>Our work in respect of unusual transactions is ongoing at 20 September 2016.</p>

#### Other matters

As required by ISA (UK&I) 260 and other ISAs specifying communication requirements, we are required to communicate to you significant findings from the audit and other matters that are significant to your oversight of the Council's financial reporting process, including the following:

- qualitative aspects of your accounting practices; estimates and disclosures;
- matters specifically required by other auditing standards to be communicated to those charged with governance. For example, issues about fraud, compliance with laws and regulations, external confirmations and related party transactions;
- any significant difficulties encountered during the audit; and
- other audit matters of governance interest

We have no matters we wish to report at this stage.

## **Control themes and observations**

It is the responsibility of the Council to develop and implement systems of internal financial control and to put in place proper arrangements to monitor their adequacy and effectiveness in practice. Our responsibility as your auditor is to consider whether the Council has put adequate arrangements in place to satisfy itself that the systems of internal financial control are both adequate and effective in practice.

We have adopted a fully substantive approach and have therefore not tested the operation of controls.

We have not identified any significant deficiencies in the design or operation of an internal control that might result in a material misstatement in your financial statements.

Our work on the Annual Governance Statement is ongoing.

## **Request for written representations**

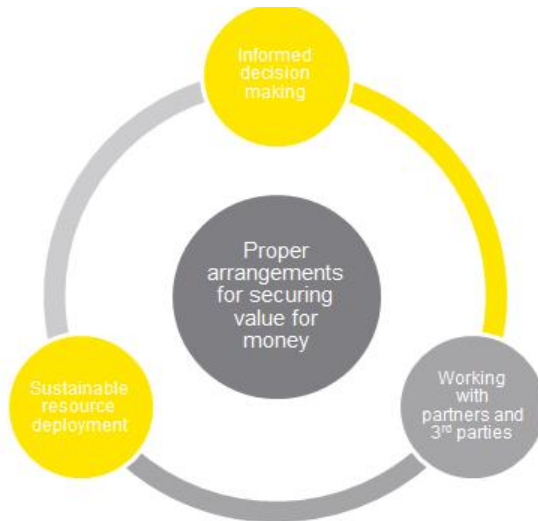
We have requested a management representation letter to gain management's confirmation in relation to a number of matters, as outlined in Appendix E.

## **Whole of Government Accounts**

Alongside our work on the financial statements, we also review and report to the National Audit Office on your Whole of Government Accounts return. The extent of our review and the nature of our report are specified by the National Audit Office.

We have no matters to report in respect of the Whole of Government Accounts return.

## 4. Value for money



We are required to consider whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. This is known as our value for money conclusion.

Proper arrangements are defined by statutory guidance issued by the National Audit Office. They comprise your arrangements to:

- ▶ take informed decisions;
- ▶ deploy resources in a sustainable manner; and
- ▶ work with partners and other third parties.

### Overall conclusion

We identified one significant risk in relation to these arrangements. Details of this risk, and our response, are given in the table below.

We have performed the procedures outlined in our audit plan. We did not identify any significant weaknesses in the Council's arrangements.

We therefore expect to conclude that you have put in place proper arrangements to secure value for money in your use of resources.

### Significant risks

The table below presents the findings of our work in response to the risk areas in our audit plan. No additional risks have been identified since the planning stage of our audit.

### VFM risk identified within our audit plan

#### **Creation of a wholly owned company to provide private rented accommodation**

The Council is in the process of creating a wholly owned subsidiary company to provide private sector rented housing.

It is important that proper consideration is given to the powers under which this company is set up, its purpose and correlation with wider Council strategy, and the related governance and financing arrangements for the scheme.

We shared with the Head of Finance, in October 2015, our thoughts on the kind of questions we, as your external auditors, would be asking about this new arrangement.

### Impacts arrangements for:

Informed decision making and sustainable resource deployment

### Key findings

We reviewed the arrangements the Council has put in place for the new housing company, with particular focus on the following aspects:

- ▶ The legal powers under which the company is created
- ▶ The rationale for creation of the company and how this aligns with the Council's strategic aims and objectives
- ▶ The initial funding for, and if applicable, provision of existing Council properties to, the company
- ▶ The contracting and procurement implications of creating the company
- ▶ The governance structures underpinning the company
- ▶ The financial and accounting implications of the company

The Council has taken informed decisions to date in respect of the housing company. It has sought detailed external legal advice, has called on the expertise of internal senior officers, and has allowed members to make informed decisions through detailed papers to Cabinet and Council. Processes have been established to allow informed decisions to be made for each project to be undertaken by the company going forward, through the requirement for detailed plans and costings for each proposed scheme, to be approved by members.

The Council has also used resources in a sustainable manner in respect of the housing company to date. The initial amounts set aside for the company appear reasonable; all schemes put forward by the company will require full costings and, when approved, will be included in the Council's capital programme. A clear purpose for the housing company has been established, it has been linked to the Council's corporate plan and medium term financial strategy, and is justified by reference to specific legislation.

We have therefore not identified any weaknesses in respect of the Council's arrangements to ensure informed decision making or sustainable resource deployment with respect to the housing company. Clearly there will be a need for ongoing close management of the company as it develops, to ensure it remains aligned with the Council's priorities and continues to provide value for money.

## Appendix A – Corrected audit differences

The following corrected differences, which are greater than £65,000, have been identified during the course of our audit and warrant communicating to you.

These items have been corrected by management within the revised financial statements.

### Balance sheet and Statement of comprehensive income and expenditure

Item of account	Balance sheet (Decrease) / Increase £000	Comprehensive income and expenditure statement (Decrease) / Increase £000
Debtors	(325)	0
Investment properties under construction	325	0
The Council's share of an asset being constructed with a third party had been recognised as a debtor; this should have been recognised as an investment property under construction.		
	0	0
<b>Cumulative effect of unadjusted differences</b>	<b>0</b>	<b>0</b>



## Appendix B – Independence

We confirm there are no changes in our assessment of independence since our confirmation in our Audit Plan dated 29 February 2016.

We complied with the Auditing Practices Board's Ethical Standards for Auditors and the requirements of the Public Sector Audit Appointments Ltd (PSAA)'s Terms of Appointment. In our professional judgement the firm is independent and the objectivity of the audit engagement partner and audit staff has not been compromised within the meaning of regulatory and professional requirements.

We confirm that we are not aware of any relationships that may affect the independence and objectivity of the firm that we are required by auditing and ethical standards to report to you.

We consider that our independence in this context is a matter that should be reviewed by both you and ourselves. It is therefore important that you consider the facts of which you are aware and come to a view. If you wish to discuss any matters concerning our independence, we will be pleased to do so at the forthcoming meeting of the General Purposes Committee on 29 September 2016.

We confirm that we have met the reporting requirements to the Audit Panel and General Purposes Committee, as 'those charged with governance' under International Standards on Auditing (UK and Ireland) 260 – Communication with those charged with governance. Our communication plan to meet these requirements was set out in our Audit Plan of 29 February 2016.

## Appendix C – Auditor fees

The table below sets out the scale fee and our final proposed audit fees.

Description	Proposed final Fee 2015/16 £	Scale Fee 2015/16 £	Variation comments
Total Audit Fee – Code work	52,830	52,830	N/A
Certification of claims and returns	9,042	9,042	N/A
Non-audit work	0	0	N/A

Our actual fee is in line with the scale fee set by the PSAA at this point in time, subject to satisfactory clearance of the outstanding work.

We confirm we have not undertaken any non-audit work outside of the PSAA's requirements.

## Appendix D – Draft audit report

### 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 2016 under the Local Audit and Accountability Act 2014. The financial statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement and related notes 1 to 36 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 2015/16.

This report is made solely to the members of Test Valley Borough Council, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and for no other purpose, as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Test Valley Borough Council 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 8, 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 2015/16, 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 financial statements 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 2015/16 to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. 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 2016 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 2015/16.

### **Opinion on other matters**

In our opinion, the information given in the Statement of Accounts 2015/16 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 is misleading or inconsistent with other information forthcoming from the audit or our knowledge of the Council;
- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014;
- we make written recommendations to the audited body under Section 24 of the Local Audit and Accountability Act 2014;
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014.

We have nothing to report in these respects

### **Conclusion on Test Valley Borough Council's arrangements for securing economy, efficiency and effectiveness in the use of resources**

#### **Authority's responsibilities**

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

#### **Auditor's responsibilities**

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

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

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

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General (C&AG) in November 2015, as to whether Test Valley Borough Council had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The C&AG determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether Test Valley Borough Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2016.

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, Test Valley Borough Council 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 issued by the C&AG in November 2015, 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 2016.

### **Certificate**

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

Kate Handy  
for and on behalf of Ernst & Young LLP, Appointed Auditor  
Southampton  
xx September 2016

## Appendix E – Management representation letter

[To be prepared on the entity's letterhead]

29 September 2016

Kate Handy  
Ernst & Young LLP  
Wessex House  
19 Threefield Lane  
Southampton  
SO14 3QB

This letter of representations is provided in connection with your audit of the financial statements of Test Valley Borough Council ("the Council") for the year ended 31 March 2016. We recognise that obtaining representations from us concerning the information contained in this letter is a significant procedure in enabling you to form an opinion as to whether the financial statements give a true and fair view of the financial position of Test Valley Borough Council as of 31 March 2016 and of its income and expenditure for the year then ended in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.

We understand that the purpose of your audit of our financial statements is to express an opinion thereon and that your audit was conducted in accordance with International Standards on Auditing (UK and Ireland), which involves an examination of the accounting system, internal control and related data to the extent you considered necessary in the circumstances, and is not designed to identify - nor necessarily be expected to disclose - all fraud, shortages, errors and other irregularities, should any exist.

Accordingly, we make the following representations, which are true to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

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

1. We have fulfilled our responsibilities, under the relevant statutory authorities, for the preparation of the financial statements in accordance with the Accounts and Audit Regulations 2015 and CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.
2. We acknowledge, as members of management and those charged with governance of the Council, our responsibility for the fair presentation of the financial statements. We believe the financial statements referred to above give a true and fair view of the financial position, financial performance (or results of operations) and cash flows of the Council in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16. We have approved the financial statements.
3. The significant accounting policies adopted in the preparation of the financial statements are appropriately described in the financial statements.

4. As members of management and those charged with governance of the Council, we believe that the Council has a system of internal controls adequate to enable the preparation of accurate financial statements in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16, that are free from material misstatement, whether due to fraud or error.
5. There are no unadjusted audit differences identified during the current audit and pertaining to the latest period presented.

#### **B. Fraud**

1. We acknowledge that we are responsible for the design, implementation and maintenance of internal controls to prevent and detect fraud.
2. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
3. We have disclosed to you all significant facts relating to any frauds, suspected frauds or allegations of fraud known to us that may have affected the Council (regardless of the source or form and including, without limitation, allegations by “whistle-blowers”), whether involving management or employees who have significant roles in internal control. Similarly, we have disclosed to you our knowledge of frauds or suspected frauds affecting the entity involving others where the fraud could have a material effect on the financial statements. We have also disclosed to you all information in relation to any allegations of fraud or suspected fraud communicated by employees, former employees, analysts, regulators or others, that could affect the financial statements.

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

1. We have disclosed to you all identified or suspected non-compliance with laws and regulations whose effects should be considered when preparing the financial statements.

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

1. We have provided you with:
  - Access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
  - Additional information that you have requested from us for the purpose of the audit; and
  - Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
2. All material transactions have been recorded in the accounting records and are reflected in the financial statements.
3. We have made available to you all minutes of the meetings of the Council, Cabinet and other committees (or summaries of actions of recent meetings for which minutes have not yet been prepared) held through the year to the most recent meeting.

4. We confirm the completeness of information provided regarding the identification of related parties. We have disclosed to you the identity of the Council's related parties and all related party relationships and transactions of which we are aware, including sales, purchases, loans, transfers of assets, liabilities and services, leasing arrangements, guarantees, non-monetary transactions and transactions for no consideration for the period ended, as well as related balances due to or from such parties at the period end. These transactions have been appropriately accounted for and disclosed in the financial statements.
5. We have disclosed to you, and the Council has complied with, all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance, including all covenants, conditions or other requirements of all outstanding debt.

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

1. All liabilities and contingencies, including those associated with guarantees, whether written or oral, have been disclosed to you and are appropriately reflected in the financial statements.
2. We have informed you of all outstanding and possible litigation and claims, whether or not they have been discussed with legal counsel.
3. We have recorded and/or disclosed, as appropriate, all liabilities related litigation and claims, both actual and contingent, and have disclosed all guarantees that we have given to third parties.
4. No other claims in connection with litigation have been or are expected to be received.

#### **F. Accounting Estimates**

1. We believe that the significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable.
2. For accounting estimates recognised or disclosed in the financial statements:
  - We believe the measurement processes, including related assumptions and models, we used in determining accounting estimates is appropriate and the application of these processes is consistent.
  - The disclosures relating to accounting estimates are complete and appropriate in accordance with the applicable financial reporting framework.
  - The assumptions we used in making accounting estimates appropriately reflects our intent and ability to carry out specific courses of action on behalf of the entity, where relevant to the accounting estimates and disclosures.
  - No subsequent event requires an adjustment to the accounting estimates and disclosures included in the financial statements.

#### **G. Subsequent Events**

1. Other than as described in Note 35 to the financial statements, there have been no events subsequent to period end which require adjustment of or disclosure in



the financial statements or notes thereto.

**H. Use of the Work of a Specialist**

1. We agree with the findings of the specialists that we engaged to evaluate the valuation of property, plant and equipment, and the pension fund liability, and have adequately considered the qualifications of the specialists in determining the amounts and disclosures included in the financial statements and the underlying accounting records. We did not give or cause any instructions to be given to the specialists with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an effect on the independence or objectivity of the specialists.

**I. Retirement Benefits**

1. On the basis of the process established by us and having made appropriate enquiries, we are satisfied that the actuarial assumptions underlying the scheme liabilities are consistent with our knowledge of the business. All significant retirement benefits and all settlements and curtailments have been identified and properly accounted for.

Yours faithfully,

---

William Fullbrook  
(Head of Finance and Section 151 Officer)

I confirm that this letter has been discussed and agreed at the General Purposes Committee on 29 September 2016

---

Councillor Ian Carr  
(Chairman of the General Purposes Committee)

## Appendix F – Required communications with the audit committee

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

Required communication	Reference
<p><b>Planning and audit approach</b></p> <p>Communication of the planned scope and timing of the audit, including any limitations.</p>	Audit Plan
<p><b>Significant findings from the audit</b></p> <ul style="list-style-type: none"> <li>▶ Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures</li> <li>▶ Significant difficulties, if any, encountered during the audit</li> <li>▶ Significant matters, if any, arising from the audit that were discussed with management</li> <li>▶ Written representations that we are seeking</li> <li>▶ Expected modifications to the audit report</li> <li>▶ Other matters if any, significant to the oversight of the financial reporting process</li> <li>▶</li> </ul>	Audit Results Report
<p><b>Going concern</b></p> <p>Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:</p> <ul style="list-style-type: none"> <li>▶ Whether the events or conditions constitute a material uncertainty</li> <li>▶ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements</li> <li>▶ The adequacy of related disclosures in the financial statements</li> </ul>	No conditions or events have been identified to date, either individually or in aggregate, that indicated there could be doubt about Test Valley Council's ability to continue as a going concern for the 12 months from the date of our report.
<p><b>Misstatements</b></p> <ul style="list-style-type: none"> <li>▶ Uncorrected misstatements and their effect on our audit opinion</li> <li>▶ The effect of uncorrected misstatements related to prior periods</li> <li>▶ A request that any uncorrected misstatement be corrected</li> <li>▶ In writing, corrected misstatements that are significant</li> </ul>	Audit Results Report
<p><b>Fraud</b></p> <ul style="list-style-type: none"> <li>▶ Enquiries of the Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity</li> <li>▶ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist</li> <li>▶ A discussion of any other matters related to fraud</li> </ul>	We have made enquiries of management. We have not become aware of any fraud or illegal acts during our audit to date.
<p><b>Related parties</b></p> <p>Significant matters arising during the audit in connection with the entity's related parties including, when applicable:</p> <ul style="list-style-type: none"> <li>▶ Non-disclosure by management</li> <li>▶ Inappropriate authorisation and approval of transactions</li> <li>▶ Disagreement over disclosures</li> <li>▶ Non-compliance with laws and regulations</li> <li>▶ Difficulty in identifying the party that ultimately controls the entity</li> </ul>	We have no matters we wish to report to date

Required communication	Reference
<p><b>External confirmations</b></p> <ul style="list-style-type: none"> <li>▶ Management's refusal for us to request confirmations</li> <li>▶ Inability to obtain relevant and reliable audit evidence from other procedures</li> </ul>	<p>We have received all requested confirmations.</p>
<p><b>Consideration of laws and regulations</b></p> <ul style="list-style-type: none"> <li>▶ Audit findings regarding non-compliance where the non-compliance is material and believed to be intentional. This communication is subject to compliance with legislation on tipping off</li> <li>▶ Enquiry of the Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the committee may be aware of</li> </ul>	<p>We have not identified any material instances of non-compliance with laws and regulations to date</p>
<p><b>Independence</b></p> <p>Communication of all significant facts and matters that bear on EY's objectivity and independence</p> <p>Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as:</p> <ul style="list-style-type: none"> <li>▶ The principal threats</li> <li>▶ Safeguards adopted and their effectiveness</li> <li>▶ An overall assessment of threats and safeguards</li> <li>▶ Information about the general policies and process within the firm to maintain objectivity and independence</li> </ul>	<p>Audit Plan and Audit Results Report</p>
<p><b>Significant deficiencies in internal controls identified during the audit</b></p>	<p>Audit Results Report</p>
<p><b>Fee Information</b></p> <ul style="list-style-type: none"> <li>▶ Breakdown of fee information at the agreement of the initial audit plan</li> <li>▶ Breakdown of fee information at the completion of the audit</li> </ul>	<p>Audit Plan Audit Results Report</p>
<p><b>Certification work</b></p> <ul style="list-style-type: none"> <li>▶ Summary of certification work undertaken</li> </ul>	<p>Certification Report</p>

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**Your ref:**  
**Our ref:**  
**Date:** 29<sup>th</sup> September, 2016

Dear Kate,

### **Letter of Representation – Test Valley Borough Council**

This letter of representations is provided in connection with your audit of the financial statements of Test Valley Borough Council (“the Council”) for the year ended 31 March 2016. We recognise that obtaining representations from us concerning the information contained in this letter is a significant procedure in enabling you to form an opinion as to whether the financial statements give a true and fair view of the financial position of Test Valley Borough Council as of 31 March 2016 and of its income and expenditure for the year then ended in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.

We understand that the purpose of your audit of our financial statements is to express an opinion thereon and that your audit was conducted in accordance with International Standards on Auditing (UK and Ireland), which involves an examination of the accounting system, internal control and related data to the extent you considered necessary in the circumstances, and is not designed to identify - nor necessarily be expected to disclose - all fraud, shortages, errors and other irregularities, should any exist.

Accordingly, we make the following representations, which are true to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

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

1. We have fulfilled our responsibilities, under the relevant statutory authorities, for the preparation of the financial statements in accordance with the Accounts and Audit Regulations 2015 and CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.

2. We acknowledge, as members of management and those charged with governance of the Council, our responsibility for the fair presentation of the financial statements. We believe the financial statements referred to above give a true and fair view of the financial position, financial performance (or results of operations) and cash flows of the Council in accordance with [the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16. We have approved the financial statements.
3. The significant accounting policies adopted in the preparation of the financial statements are appropriately described in the financial statements.
4. As members of management and those charged with governance of the Council, we believe that the Council has a system of internal controls adequate to enable the preparation of accurate financial statements in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16, that are free from material misstatement, whether due to fraud or error.
5. There are no unadjusted audit differences identified during the current audit and pertaining to the latest period presented.

#### **B. Fraud**

1. We acknowledge that we are responsible for the design, implementation and maintenance of internal controls to prevent and detect fraud.
2. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
3. We have disclosed to you all significant facts relating to any frauds, suspected frauds or allegations of fraud known to us that may have affected the Council (regardless of the source or form and including, without limitation, allegations by “whistle-blowers”), whether involving management or employees who have significant roles in internal control. Similarly, we have disclosed to you our knowledge of frauds or suspected frauds affecting the entity involving others where the fraud could have a material effect on the financial statements. We have also disclosed to you all information in relation to any allegations of fraud or suspected fraud communicated by employees, former employees, analysts, regulators or others, that could affect the financial statements.

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

1. We have disclosed to you all identified or suspected non-compliance with laws and regulations whose effects should be considered when preparing the financial statements.

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

1. We have provided you with:
  - Access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
  - Additional information that you have requested from us for the purpose of the audit; and

- Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
2. All material transactions have been recorded in the accounting records and are reflected in the financial statements.
  3. We have made available to you all minutes of the meetings of the Council, Cabinet and other committees (or summaries of actions of recent meetings for which minutes have not yet been prepared) held through the year to the most recent meeting.
  4. We confirm the completeness of information provided regarding the identification of related parties. We have disclosed to you the identity of the Council's related parties and all related party relationships and transactions of which we are aware, including sales, purchases, loans, transfers of assets, liabilities and services, leasing arrangements, guarantees, non-monetary transactions and transactions for no consideration for the period ended, as well as related balances due to or from such parties at the period end. These transactions have been appropriately accounted for and disclosed in the financial statements.
  5. We have disclosed to you, and the Council has complied with, all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance, including all covenants, conditions or other requirements of all outstanding debt.

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

1. All liabilities and contingencies, including those associated with guarantees, whether written or oral, have been disclosed to you and are appropriately reflected in the financial statements.
2. We have informed you of all outstanding and possible litigation and claims, whether or not they have been discussed with legal counsel.
3. We have recorded and/or disclosed, as appropriate, all liabilities related litigation and claims, both actual and contingent, and have disclosed all guarantees that we have given to third parties.
4. No other claims in connection with litigation have been or are expected to be received.

#### **F. Accounting Estimates**

1. We believe that the significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable.
2. For accounting estimates recognised or disclosed in the financial statements:
  - We believe the measurement processes, including related assumptions and models, we used in determining accounting estimates is appropriate and the application of these processes is consistent.
  - The disclosures relating to accounting estimates are complete and appropriate in accordance with the applicable financial reporting framework.

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

#### **G. Subsequent Events**

1. Other than as described in Note 35 to the financial statements, there have been no events subsequent to period end which require adjustment of or disclosure in the financial statements or notes thereto.

#### **H. Use of the Work of a Specialist**

1. We agree with the findings of the specialists that we engaged to evaluate the valuation of property, plant and equipment, and the pension fund liability, and have adequately considered the qualifications of the specialists in determining the amounts and disclosures included in the financial statements and the underlying accounting records. We did not give or cause any instructions to be given to the specialists with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an effect on the independence or objectivity of the specialists.

#### **I. Retirement Benefits**

1. On the basis of the process established by us and having made appropriate enquiries, we are satisfied that the actuarial assumptions underlying the scheme liabilities are consistent with our knowledge of the business. All significant retirement benefits and all settlements and curtailments have been identified and properly accounted for.

Yours sincerely,

---

Head of Finance

I confirm that this letter has been discussed and agreed at the General Purposes Committee on 29<sup>th</sup> September 2015

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Chairman of the General Purposes Committee





# **STATEMENT OF ACCOUNTS 2015/16**

# CONTENTS

	<b><u>Pages</u></b>
Narrative Report	1 - 7
Statement of Responsibilities	8
Independent Auditors' Report	Not in this version
Comprehensive Income & Expenditure Statement	9
Movement In Reserves Statement	10
Balance Sheet	11
Cash Flow Statement	12
Notes to the Financial Statements	13 - 60
Collection Fund	61
Notes to the Collection Fund	62 - 64
Glossary of Terms	65 - 67
<u>Annex to the Accounts</u>	
Annual Governance Report	68 - 78

# NARRATIVE REPORT

## The Statement of Accounts

The purpose of the Council's Statement of Accounts is to give interested parties clear information about the Council's finances.

There have been no major changes in accounting policy in 2015/16.

The accounts for 2015/16 consist of 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 £152.0M.
- **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 central government, Hampshire County Council (HCC), Hampshire Fire & Rescue (HFRA) and the Council's General Fund in respect of business rates' income; and precepts to HCC, HFRA, Hampshire Police Authority, local parish/town councils and the Council's own demand on the Collection Fund in respect of council tax. 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.

The accounts are supported by the notes to the financial statements. These notes include a summary of significant accounting policies, further detail relating to matters in the main financial statements, assumptions made about the future and major estimations made.

This narrative report provides a brief explanation of the Council's overall financial position and some key messages and aims to assist the readers in the interpretation of the accounting statements.

### **The Borough of Test Valley**

Test Valley is a mainly rural borough covering 62,758 hectares on the western side of Hampshire. Test Valley contains 24 different ward areas and though largely rural in character, a large proportion of the borough's residents live in towns and urban areas with a significant amount living in towns and villages scattered across the borough.

Test Valley's population was estimated to be 119,900 in 2015 and is expected to rise to 123,900 by 2019.

### **Council Priorities and Corporate Plan**

Test Valley's Corporate Plan '*Investing in Test Valley*' seeks to outline the Council's vision and priorities for the four years 2015 – 2019. The Corporate Plan sets out four priority aims which focus on ensuring that the Borough remains a great place to:

- *LIVE* where the supply of homes reflects local needs
- *WORK* and do business
- *ENJOY* the natural and built environment
- *CONTRIBUTE* and be part of a strong community

The Corporate Plan is underpinned by a Corporate Action Plan which will run for the lifetime of the plan and be updated annually. It shows in detail how the Council will make progress against these priority aims.

Each year a review is undertaken to update the Corporate Action Plan to ensure it continues to highlight the significant projects that the Council is taking forward in pursuit of its four corporate priorities.

### **Achievements against the Corporate Action Plan**

Work has started on each of the projects within the Corporate Action Plan over the last year. A number of them are likely to run for a period of time and will feature on the plan for more than one year.

Headline examples of progress include:

- The development and adoption of the Romsey Future document which will help guide the town's priorities for the next twenty years. Developed in partnership with the local community, it aims to deliver a variety of projects to improve Romsey and its facilities.
- As part of the commitment to work more closely with communities in developing our approach to the first review of the new Local Plan, and to promote neighbourhood planning, the Council was successful in obtaining £30,000 from the Department for

Communities and Local Government's Neighbourhood Planning and Local Planning Service Redesign Capacity Building Fund. Work is now underway in partnership with local parishes to develop an offer of support and to produce a bespoke toolkit for communities across the Borough to be able to use.

- The project to prepare and let a new leisure management contract is making significant progress. Through thorough evaluation, the Council has shortlisted three bidders for the next stage of the Leisure Contract procurement process. It is intended that a preferred bidder will be selected for recommendation to Council in November 2016. The contract will then commence in April 2017.
- As part of the Council's Project Enterprise, work has begun in conjunction with Kier Property to build a brand new purpose-built warehouse space, named Evolution 50, which will be a 50,000 square foot building suitable for large businesses to operate from.
- As the Council prepares to take on the management of Fishlake Meadows – a unique site to the north of Romsey, work has been undertaken to develop a draft management plan. The plan has been out for public consultation and was approved by Cabinet on 22<sup>nd</sup> June 2016.

## **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, business rates, 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.

### **Revenue Outturn for 2015/16**

The initial forecast of General Fund revenue requirements began soon after the budget for 2014/15 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 20th February 2015. The net expenditure forecast for 2015/16 agreed at this stage totalled £9.029M. No draws from general reserves were included in the budget.

The actual outturn for 2015/16 reported to Cabinet on 22<sup>nd</sup> June 2016 was £847,000 better than expected, enabling £178,000 to be transferred to the Special Projects Reserve, £43,000 to the Capacity Building Reserve and £626,000 to the Asset Management Plan Reserve.

A summary of the approved budget and final outturn for revenue activities is shown in the following table.

	<b>Approved Budget 2015/16 £'000</b>	<b>Actual 2015/16 £'000</b>	<b>Variance £'000</b>
Service Expenditure (including Investment Property income and expenditure)	14,814	13,665	1,149
<b>Corporate Items</b>			
Reversal of capital charges including depreciation	(3,287)	(3,924)	637
Investment income and borrowing	(394)	(554)	160
Non-service related grants	(3,636)	(4,497)	861
Business rates levy	0	1,540	(1,540)
Transfers to Earmarked / Capital reserves	1,532	2,198	(666)
Additional transfers to reserves arising from surplus in year	0	847	(847)
Transfer to / (from) Pension Reserve	0	(254)	254
Other	0	8	(8)
<b>GENERAL FUND REQUIREMENTS</b>	<b>9,029</b>	<b>9,029</b>	<b>0</b>
<b>Met By</b>			
Revenue Support grant	1,696	1,696	0
Locally retained business rates	2,739	2,739	0
Council Tax	6,024	6,024	0
Other Collection Fund	(1,430)	(1,430)	0
<b>TOTAL REVENUE RESOURCES</b>	<b>9,029</b>	<b>9,029</b>	<b>0</b>

### Accounting for Business Rates

Under the accounting arrangements for business rates, the Council retains 40% of the business rates collected; this was estimated in the original estimate to be £19.061M for 2015/16. From this amount the Council was required to pay the government a 'tariff' of £16.322M, leaving net budgeted income in the year of £2.739M.

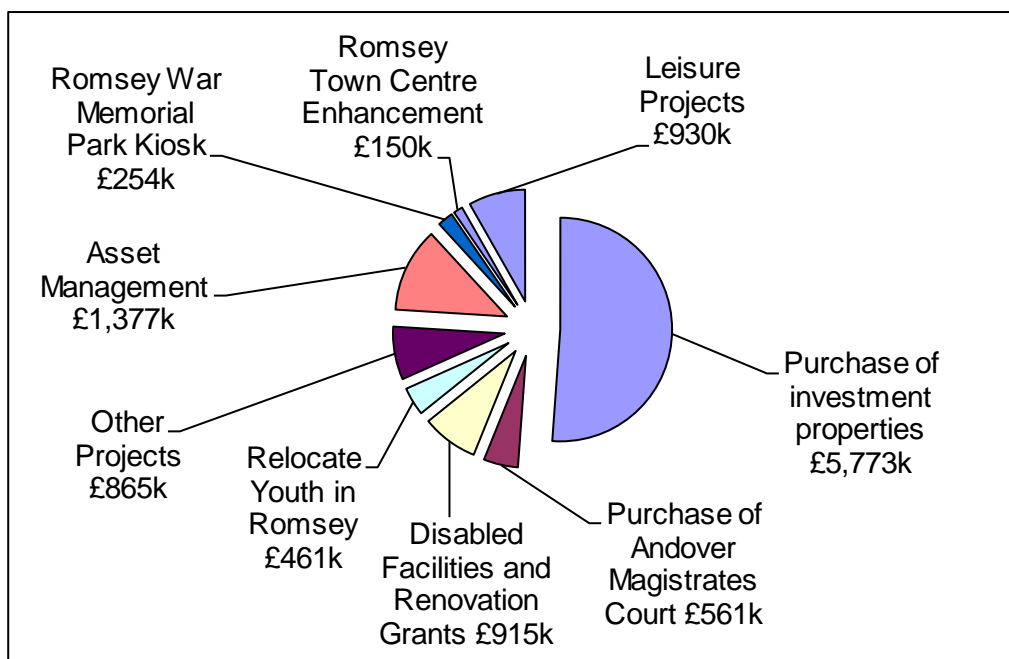
The budget for business rates income assumed a surplus of £1.445M over the baseline funding of which the Council's share at 40% was £578,000. Actual income from business ratepayers in the year was £4.426M greater than budgeted of which the Council's share was £1.770M. Therefore the Council's share of additional business rates income was £2.348M. In addition, grants to the value of £732,000 were received in the general fund for various reliefs (e.g. Small Business Rate Relief) resulting in total growth of £3.080M. Of this, 50% is payable to the government as a levy on growth, so the Council will retain a net surplus of £1.540M.

A summary of the position is shown in the following table.

	<b>£'000</b>
Increase in business rates collected in Collection Fund	4,426
TVBC share of surplus in Collection Fund (40% of above)	1,770
TVBC share of surplus assumed in budget	578
Grant received in General Fund in respect of reliefs	732
<b>Net surplus on business rates</b>	<b>3,080</b>
Levy @ 50% payable to government	(1,540)
<b>Income retained by Test Valley</b>	<b>1,540</b>

## Capital Programme

Direct capital spending for the year totalled £11.286M, as summarised in the following chart:



The Council purchased an investment property at 366 – 368 Shirley Road, Southampton on 17<sup>th</sup> March 2016 at a cost of £5.773M.

The Council finances its capital expenditure from a mixture of usable capital receipts, capital grants and contributions. In 2015/16, the majority of funding (63%) came from usable capital receipts (£7.104M) with the remainder contributions from revenue (£2.678M) and capital grants and contributions (£1.504M). The Council has set aside reserves for the future maintenance of its assets; budgeted asset management costs in 2016/17 and beyond will be funded from these reserves. The Council is debt free and has no long term borrowing.

Major capital investment is planned over the next financial year as follows:

	<b>2016/17 £'000</b>
Affordable Housing capital projects	208
Community & Leisure projects	329
Walworth Business Park Investment	7,865
Play areas - Picket Twenty	331
Disabled facilities and renovation grants	700
Asset Management projects	1,779
Ganger Farm - Sports & Recreation	640
Purchase of Investment Property	5,340
Town Mill Access & Enhancement	133
Other capital projects	728
<b>TOTAL</b>	<b>18,053</b>

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

General Fund reserves stood at £2M at 1<sup>st</sup> April 2015. This is considered to be a prudent minimum level of general reserves and this figure remains unchanged for the accounts at 31<sup>st</sup> March 2016.

In addition to the General Fund balances mentioned above, the Council held earmarked reserves of £17.134M available for specific revenue purposes and capital reserves of £26.132M 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 pension 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 2016 was £47.790M, 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 current economic climate and reduction in Central Government funding continues to add pressures to the Council's budgets.

The Council remains committed to delivering high-quality services to all residents and is well positioned to continue to do this despite these pressures.



The surplus in 2015/16 has enabled the Council to bolster reserves held for any new, one-off projects, exploring and implementing 'spend to save' initiatives, and 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.

### **Material Events after the Reporting Date**

There are no events after the balance sheet date which would have a material effect on the accounts for 2015/16.

On 30th April 2016, Valley Housing Ltd, a Housing Development and Management Company which is a wholly owned subsidiary of Test Valley Borough Council was incorporated. Group accounts will be prepared for the year ended 31st March 2017.

On 10th June 2016, Test Valley Borough Council completed the purchase of an investment property, 414 – 430 Bitterne Road, Southampton for £4.952M.

### **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 2015/16

## 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, 2016.

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

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

## COMPREHENSIVE INCOME & EXPENDITURE STATEMENT YEAR ENDED 31 MARCH 2016

This statement shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation. The Council raises taxation to cover expenditure in accordance with regulations; this may be 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.

	2014/15		Net Exp.	2015/16		Net Exp.	Note
	Exp. £'000	Income £'000	2014/15 £'000	Exp. £'000	Income £'000	2015/16 £'000	
<b>Services</b>							
Central Services	2,812	(1,883)	929	2,913	(1,502)	1,411	
Cultural & Related Services	8,446	(3,448)	4,998	6,149	(1,331)	4,818	
Environmental & Regulatory Services	6,873	(1,497)	5,376	7,364	(1,531)	5,833	
Planning & Development Services	7,478	(2,960)	4,518	7,652	(2,737)	4,915	
Highways & Transport Services	2,633	(3,666)	(1,033)	2,337	(3,393)	(1,056)	
Housing Services	32,434	(31,122)	1,312	32,294	(31,072)	1,222	
Corporate & Democratic Core	3,201	(8)	3,193	2,990	(8)	2,982	
Non - Distributed Costs	19	0	19	145	0	145	
<b>Net Cost of Services</b>	<b>63,896</b>	<b>(44,584)</b>	<b>19,312</b>	<b>61,844</b>	<b>(41,574)</b>	<b>20,270</b>	6
<b>Other Operating Income and Expenditure</b>							
Profit on disposal of Property, Plant & Equipment	0	(503)	(503)	0	(997)	(997)	18
Parish Precepts	1,104	(1,104)	0	1,160	(1,160)	0	
<b>Financing and Investment Income and Expenditure</b>							
Interest Income	0	(535)	(535)	0	(557)	(557)	29
Interest Payable	12	0	12	1	0	1	
Pension Fund Interest Costs	5,100	(3,260)	1,840	4,300	(2,720)	1,580	12
Changes in Fair Value of Investment Properties	1,691	0	1,691	0	(6,762)	(6,762)	15
(Profit) / loss on Disposal of Investment Properties	0	(1,926)	(1,926)	20	0	20	18
Net Investment Property Income	499	(6,351)	(5,852)	594	(6,389)	(5,795)	15
<b>Net Operating Expenditure</b>	<b>72,302</b>	<b>(58,263)</b>	<b>14,039</b>	<b>67,919</b>	<b>(60,159)</b>	<b>7,760</b>	
<b>Taxation and non-specific grant income</b>							
Council Tax Income	0	(6,006)	(6,006)	0	(6,157)	(6,157)	7
Business Rates Income & Expenditure	17,409	(18,695)	(1,286)	19,396	(22,389)	(2,993)	7
Non Ringfenced Government Grants	0	(5,878)	(5,878)	0	(6,187)	(6,187)	7
Capital Grants and Contributions	0	(3,483)	(3,483)	0	(1,532)	(1,532)	7,19
<b>Surplus on the provision of services</b>	<b>89,711</b>	<b>(92,325)</b>	<b>(2,614)</b>	<b>87,315</b>	<b>(96,424)</b>	<b>(9,109)</b>	
<b>Other comprehensive income and expenditure</b>							
Net (gains) / losses on revaluation of Property, Plant & Equipment	0	(98)	(98)	0	(311)	(311)	14
Re-measurement of the net defined benefit pension liability	4,850	0	4,850	0	(4,560)	(4,560)	12
<b>Total comprehensive income and expenditure</b>	<b>94,561</b>	<b>(92,423)</b>	<b>2,138</b>	<b>87,315</b>	<b>(101,295)</b>	<b>(13,980)</b>	

## MOVEMENT IN RESERVES STATEMENT YEAR ENDED 31 MARCH 2016

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

The Surplus 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 2014/15</u></b>							
<b>Balance as at 31st March 2014</b>	2,000	13,039	28,319	<b>43,358</b>	96,844	<b>140,202</b>	
Surplus on the Provision of Services	2,614	0	0	<b>2,614</b>	0	<b>2,614</b>	
Other Comprehensive Income & Expenditure	0	0	0	<b>0</b>	(4,752)	<b>(4,752)</b>	
<b>Total Comprehensive Income &amp; Expenditure</b>	<b>2,614</b>	<b>0</b>	<b>0</b>	<b>2,614</b>	<b>(4,752)</b>	<b>(2,138)</b>	
Adjustments between accounting basis and funding basis under regulations	1,931	0	3,953	<b>5,884</b>	(5,884)	<b>0</b>	5
<b>Net increase before transfers to earmarked reserves</b>	<b>4,545</b>	<b>0</b>	<b>3,953</b>	<b>8,498</b>	<b>(10,636)</b>	<b>(2,138)</b>	
Transfers to earmarked reserves	(4,545)	4,545	0	<b>0</b>	0	<b>0</b>	26
<b>Increase / (Decrease) in Year</b>	<b>(0)</b>	<b>4,545</b>	<b>3,953</b>	<b>8,498</b>	<b>(10,636)</b>	<b>(2,138)</b>	
<b>Balance as at 31st March 2015</b>	<b>2,000</b>	<b>17,584</b>	<b>32,272</b>	<b>51,856</b>	<b>86,208</b>	<b>138,064</b>	
<b><u>Movements during 2015/16</u></b>							
Surplus on the Provision of Services	9,109	0	0	<b>9,109</b>	0	<b>9,109</b>	
Other Comprehensive Income & Expenditure	0	0	0	<b>0</b>	4,871	<b>4,871</b>	
<b>Total Comprehensive Income &amp; Expenditure</b>	<b>9,109</b>	<b>0</b>	<b>0</b>	<b>9,109</b>	<b>4,871</b>	<b>13,980</b>	
Adjustments between accounting basis and funding basis under regulations	(9,559)	0	(6,140)	<b>(15,699)</b>	15,699	<b>0</b>	5
<b>Net increase before transfers to earmarked reserves</b>	<b>(450)</b>	<b>0</b>	<b>(6,140)</b>	<b>(6,590)</b>	<b>20,570</b>	<b>13,980</b>	
Transfers to earmarked reserves	450	(450)	0	<b>0</b>	0	<b>0</b>	26
<b>Increase / (Decrease) in Year</b>	<b>(0)</b>	<b>(450)</b>	<b>(6,140)</b>	<b>(6,590)</b>	<b>20,570</b>	<b>13,980</b>	
<b>Balance as at 31st March 2016</b>	<b>2,000</b>	<b>17,134</b>	<b>26,132</b>	<b>45,266</b>	<b>106,778</b>	<b>152,044</b>	

## BALANCE SHEET AS AT 31 MARCH 2016

The Balance Sheet summarises the assets and liabilities recognised by the Council 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 26 and 27.

	2014/15		2015/16		Note
	£'000	£'000	£'000	£'000	
Land & Buildings	54,377		54,334		14
Vehicles, Plant & Equipment	3,601		3,362		14
Community Assets	3,993		4,902		14
Infrastructure Assets	703		689		14
Surplus Assets	0		452		14
<b>Property, Plant &amp; Equipment (PPE)</b>		62,674		63,739	
<b>Investment Properties</b>		74,599		87,584	15
<b>Intangible Assets</b>		308		252	16
Long-Term Debtors	257		256		29
Long-Term Investments	0		5,187		29
<b>Long-Term Assets</b>		257		5,443	
Cash and Cash Equivalents	13,445		19,695		20
Short-Term Investments	46,902		38,638		29
Inventories	182		191		
Debtors	8,243		9,791		21
Less: Bad Debt Allowance	(2,429)		(2,456)		21
<b>Current Assets</b>		66,343		65,859	
Creditors	(13,289)		(22,142)		22
Provisions	(2,298)		(901)		23
<b>Current Liabilities</b>		(15,587)		(23,043)	
<b>Total Assets less Current Liabilities</b>		<b>188,594</b>		<b>199,834</b>	
Liability to Pension Fund	50,530		47,790		12
<b>Long-Term Liabilities</b>		(50,530)		(47,790)	
<b>Net Assets</b>		<b>138,064</b>		<b>152,044</b>	
<b>Usable Reserves</b>					
General Fund Balance	2,000		2,000		26
Revenue and Earmarked Reserves	17,584		17,134		26
Capital Receipts Reserve	32,272		26,132		26
<b>Total Usable Reserves</b>		<b>51,856</b>		<b>45,266</b>	
<b>Unusable Reserves</b>					
Revaluation Reserve	17,431		17,454		27
Capital Adjustment Account	120,795		135,249		27
Deferred Credits	7		7		27
Collection Fund Adjustment Account	(1,322)		2,034		27
Accumulated Absences Account	(173)		(176)		27
Pension Fund Reserve	(50,530)		(47,790)		27
<b>Total Unusable Reserves</b>		<b>86,208</b>		<b>106,778</b>	
<b>Total Equity</b>		<b>138,064</b>		<b>152,044</b>	

## CASH FLOW STATEMENT YEAR ENDED 31 MARCH 2016

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.

	2014/15		2015/16		Note
	£'000	£'000	£'000	£'000	
<b>Revenue Activities</b>					
Net surplus on the provision of services		2,614		9,109	
<b>Adjustments for non-cash transactions</b>					
Depreciation of PPE / Amortisation of intangibles	2,064		2,282		14,16
Revaluation (Gains) / Losses on Investment Properties	1,691		(6,762)		15
Impairment & Downward Valuations of PPE & intangibles	2,694		107		14,16
Pension Fund Transfers	1,710		1,820		12
Other non-cash items	(1,447)		(1,447)		25
		6,712		(4,000)	
<b>Adjustments in respect of Investing Activities</b>		(3,375)		(2,481)	
<b>Adjustments for items on an accruals basis</b>					
(Increase) / Decrease in Debtors	254		(1,216)		
(Increase) / Decrease in Inventories	(14)		(9)		
(Decrease) / Increase in Creditors	(397)		5,007		
		(157)		3,782	
<b>Net Cash Inflow from Operating Activities</b>		<b>5,794</b>		<b>6,410</b>	25
<b>Investing Activities</b>					
Purchase of Short-term and Long-term Investments	(57,937)		(52,147)		29
Proceeds from Short-term and Long-term Investments	52,942		55,300		29
Purchase of Assets	(3,226)		(8,791)		14,15
Sale of Assets	3,791		10		
Other Capital Cash Received	2,264		1,993		
<b>Net Investing Activity Cashflow</b>		<b>(2,166)</b>		<b>(3,635)</b>	
<b>Financing Activities</b>					
Cash payments to reduce outstanding finance lease creditors	(43)		(33)		
Other income / (payments) for financing activities	(88)		3,508		25
<b>Net Financing Activity Cashflow</b>		<b>(131)</b>		<b>3,475</b>	
<b>Net Increase / (Decrease) in Cash and Cash Equivalents</b>		<b>3,497</b>		<b>6,250</b>	
<b>Cash and Cash Equivalents at the start of the reporting period</b>		<b>9,948</b>		<b>13,445</b>	
<b>Cash and Cash Equivalents at the end of the reporting period</b>		<b>13,445</b>		<b>19,695</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 on Disposal of Assets
19. Capital Expenditure and Financing
20. Cash and Cash Equivalents
21. Analysis of Debtors
22. Analysis of Creditors
23. Provisions
24. Trust Funds
25. Notes to the Cash Flow Statement
26. Usable Reserves
27. Unusable Reserves
28. Net Assets Employed
29. Financial Instruments
30. Nature and Extent of Risks Arising from Financial Instruments
31. Related Party Transactions
32. Group Accounts
33. Contingent Assets
34. Contingent Liabilities
35. Events after the Balance Sheet Date
36. 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 2015/16 financial year and its position at the year-end of 31 March 2016. The Council is required to prepare an annual Statement of Accounts (by the Accounts and Audit regulations 2015) in accordance with proper accounting practices.

These practices primarily comprise; the Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 and the Service Reporting Code of Practice 2015/16 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. **Prior Period Adjustments**

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

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

There are no prior period adjustments for 2015/16.

#### 1.4. **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 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. 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.

#### 1.5. **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.

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

##### Provisions

Provisions are made where an event has taken place that gives the Council a legal or constructive obligation that probably requires settlement by a transfer of economic benefits and a reliable estimate of the potential liability can be reasonably calculated.

Provisions are charged as an expense to the Comprehensive Income & Expenditure Statement in the year that the Council recognises the obligation and are shown at the best estimate of the eventual outcome at the Balance Sheet date.

Payments to settle the obligation are charged against the provision. Any difference between the provision and the actual settlement figure are charged to the Comprehensive Income & Expenditure Statement when the obligation is settled.

##### 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.

## 1.7. 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 accounting policies below.

## 1.8. 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.

## 1.9. 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 an average per employee) 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.

## **1.10. 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.

## **1.11. VAT**

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

### 1.12. **Overheads and Support Services**

The cost of overheads and support services are charged to those that benefit from the supply or service in accordance with the costing principles of CIPFA's *Service Reporting Code of Practice 2014/15* (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.

### 1.13. **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. These charges are reversed out of the General Fund balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account.

### 1.14. **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.

Investment properties under construction are measured at fair value once it is possible to measure reliably the fair value of the investment property, and at cost before that date.

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.

## 1.15. 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 (i.e. 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 recognised 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).

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 as follows:

- 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).

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.

#### **1.16. 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.

#### **1.17. 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.

#### **1.18. 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.

### 1.19. 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.

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).

### 1.20. **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 and subsequently carried at their amortised cost.

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.

Where the Council makes a soft loan (i.e. At less than market rate or with an interest free period), the loan will be shown in the balance sheet at carrying value rather than amortised value unless the value of the advance is greater than £500,000 or there is significant discounting of interest rates.

#### 1.21. **Inventories**

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

#### 1.22. **Fair Value Measurement**

The Council measures some of its non-financial assets such as surplus assets and investment properties, and some of its financial instruments, such as equity share holdings, at fair value at each reporting date. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement assumes that the transaction to sell the asset or transfer the liability takes place either

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The Council measures the fair value of an asset or liability using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

When measuring the fair value of a non-financial asset, the Council takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use it in its highest and best use.

The Council uses appropriate valuation techniques for each circumstance, maximising the use of relevant known data and minimising the use of estimates and unknowns. This takes into account the three levels of categories for inputs to valuations for fair value assets:

- Level 1 – quoted prices in active markets for identical assets or liabilities that the Council can access at the measurement date.
- Level 2 – inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3 – unobservable inputs for the asset or liability.

## 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.

There are no Accounting Standards that have been issued but not yet adopted that would have a material effect on this year's Statement of Accounts were they in effect

for the year ended 31<sup>st</sup> March 2016, nor are they expected to have a material effect on the Statement of Accounts for the year ended 31<sup>st</sup> March 2017.

### 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 how revalued amounts are shown in the accounts and whether depreciation is chargeable on the asset.

**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 2016 for which there is a significant risk of material adjustment in the forthcoming financial year are explained in the table below.

Item	Uncertainties	Effect if actual results differ from assumptions
Bad Debt Allowance	The Council has made allowances for doubtful debts of £2.456M in 2015/16 (2014/15 £2.429M) based	If collection rates were to deteriorate or improve, a 5% change would require an adjustment to the allowance of £122,800

	on what it believes to be a prudent but realistic level.	(2014/15 £121,400).
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.	More information can be found in Note 12 about the sensitivity to changes in assumptions in respect of: <ul style="list-style-type: none"> <li>• The discount rate used</li> <li>• Salary inflation</li> <li>• Rates of increase to pensions in payment</li> <li>• Mortality rates</li> </ul>
Provisions	The Council has made a provision of £901,000 in 2015/16 (2014/15 £2.298M) in respect of its share of appeals made by ratepayers for past business rates' costs. It is not certain how many of the appeals will be upheld.	A 10% increase or decrease in the actual number of appeals upheld would result in a change to the provision of £90,100 (2014/15 £229,800).

## 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 2015/16

	General Fund Balance £'000	Capital Receipts Reserve £'000	Total Usable Reserves £'000	Unusable Reserves £'000	Note
<b>Adjustments primarily involving the Capital Adjustment Account</b>					
Depreciation of non-current assets	2,226	0	2,226	(2,226)	14
Amortisation of intangible assets	56	0	56	(56)	16
Impairment of non-current assets	107	0	107	(107)	14
Movement in the fair value of investment property	(6,762)	0	(6,762)	6,762	15
Profit on disposal of non-current assets	(977)	0	(977)	977	18
Revenue expenditure funded from capital under statute	1,033	(1,033)	0	0	27
Capital grants, contributions and income in relation to donated assets credited to the CI&ES	(28)	0	(28)	28	19
<b>Adjustments primarily involving the Capital Receipts Reserve</b>					
Proceeds from disposal of non-current assets	0	997	997	(997)	26
Financing of new capital expenditure	(3,681)	(6,071)	(9,752)	9,752	19
<b>Adjustments primarily involving the Pensions Reserve</b>					
Reversal of items relating to retirement benefits charged to the CI&ES	4,010	0	4,010	(4,010)	12
Employer's contribution to pension fund / directly to pensioners	(2,190)	0	(2,190)	2,190	12
<b>Adjustments primarily involving the Collection Fund Adjustment Account</b>					
Amount by which Council Tax and Business Rates income credited to the CI&ES is different from Council Tax and Business Rates income calculated for the year in accordance with statutory requirements.	(3,356)		(3,356)	3,356	27
<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.	3	0	3	(3)	27
<b>Insertion of items not shown in the Comprehensive Income &amp; Expenditure Statement</b>					
Voluntary provision for repayment of finance leases	0	(33)	(33)	33	26
	<b>(9,559)</b>	<b>(6,140)</b>	<b>(15,699)</b>	<b>15,699</b>	

## Comparative Transactions for 2014/15

	<b>General Fund Balance</b>	<b>Capital Receipts Reserve</b>	<b>Total Usable Reserves</b>	<b>Unusable Reserves</b>	<b>Note</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	
<b>Adjustments primarily involving the Capital Adjustment Account</b>					
Depreciation of non-current assets	2,009	0	<b>2,009</b>	(2,009)	14
Amortisation of intangible assets	55	0	<b>55</b>	(55)	16
Impairment of non-current assets	2,337	0	<b>2,337</b>	(2,337)	14
Impairment of intangible assets	357	0	<b>357</b>	(357)	16
Movement in the fair value of investment property	1,691	0	<b>1,691</b>	(1,691)	15
Profit on disposal of non-current assets	(2,429)	0	<b>(2,429)</b>	2,429	18
Revenue expenditure funded from capital under statute	692	(692)	<b>0</b>	0	27
Capital grants, contributions and income in relation to donated assets credited to the CI&ES	(2,537)	0	<b>(2,537)</b>	2,537	19
<b>Adjustments primarily involving the Capital Receipts Reserve</b>					
Proceeds from disposal of non-current assets	0	4,279	<b>4,279</b>	(4,279)	26
Financing of new capital expenditure	(3,270)	409	<b>(2,861)</b>	2,861	19
<b>Adjustments primarily involving the Pensions Reserve</b>					
Reversal of items relating to retirement benefits charged to the CI&ES	3,800	0	<b>3,800</b>	(3,800)	12
Employer's contribution to pension fund / directly to pensioners	(2,090)	0	<b>(2,090)</b>	2,090	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.	1,337	0	<b>1,337</b>	(1,337)	27
<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.	(20)	0	<b>(20)</b>	20	27
<b>Insertion of items not shown in the Comprehensive Income &amp; Expenditure Statement</b>					
Voluntary provision for repayment of finance leases	0	(43)	<b>(43)</b>	43	26
Other adjustments	(1)	0	<b>(1)</b>	1	
	<b>1,931</b>	<b>3,953</b>	<b>5,884</b>	<b>(5,884)</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 2015/16 included Disabled Facility Grants of £501,000 (2014/15 - £434,000). 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 22nd June 2016 to the net cost of services shown in the Comprehensive Income & Expenditure Statement.

Year ended 31st March 2016	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	1,469	3,077	9,766	1,718	1,744	3,608	2,706	5,529	29,617
Government Grants	0	0	0	0	0	0	29,586	196	29,782
<b>Total Income</b>	<b>1,469</b>	<b>3,077</b>	<b>9,766</b>	<b>1,718</b>	<b>1,744</b>	<b>3,608</b>	<b>32,292</b>	<b>5,725</b>	<b>59,399</b>
Employee Expenses	1,313	3,876	1,107	1,635	1,843	1,552	2,064	3,548	16,938
Other Operating Expenses	2,354	2,670	3,066	469	670	1,516	30,402	2,356	43,503
Support Service Recharges	700	525	906	1,021	931	637	741	3,542	9,003
Impairment Costs	0	0	107	0	0	0	0	0	107
Capital Charges to Revenue	1,150	679	473	1,048	9	289	0	168	3,816
<b>Total Expenditure</b>	<b>5,517</b>	<b>7,750</b>	<b>5,659</b>	<b>4,173</b>	<b>3,453</b>	<b>3,994</b>	<b>33,207</b>	<b>9,614</b>	<b>73,367</b>
<b>Net Cost of Services</b>	<b>4,048</b>	<b>4,673</b>	<b>(4,107)</b>	<b>2,455</b>	<b>1,709</b>	<b>386</b>	<b>915</b>	<b>3,889</b>	<b>13,968</b>

#### Comparative Transactions for 2014/15

Year ended 31st March 2015	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	1,221	2,951	9,546	1,624	1,908	3,614	2,915	5,398	29,177
Government Grants	0	0	0	0	0	0	29,864	423	30,287
<b>Total Income</b>	<b>1,221</b>	<b>2,951</b>	<b>9,546</b>	<b>1,624</b>	<b>1,908</b>	<b>3,614</b>	<b>32,779</b>	<b>5,821</b>	<b>59,464</b>
Employee Expenses	1,247	3,603	1,093	1,659	1,729	1,477	2,018	3,440	16,266
Other Operating Expenses	2,276	2,793	3,139	376	352	1,326	30,846	2,463	43,571
Support Service Recharges	657	495	860	975	886	605	675	3,302	8,455
Impairment Costs	2,016	0	524	0	0	154	0	0	2,694
Capital Charges to Revenue	975	610	368	985	9	51	0	192	3,190
<b>Total Expenditure</b>	<b>7,171</b>	<b>7,501</b>	<b>5,984</b>	<b>3,995</b>	<b>2,976</b>	<b>3,613</b>	<b>33,539</b>	<b>9,397</b>	<b>74,176</b>
<b>Net Cost of Services</b>	<b>5,950</b>	<b>4,550</b>	<b>(3,562)</b>	<b>2,371</b>	<b>1,068</b>	<b>(1)</b>	<b>760</b>	<b>3,576</b>	<b>14,712</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.

	2014/15 £'000	2015/16 £'000
<b>Cost of Services in Expenditure Analysis</b>	<b>14,712</b>	<b>13,968</b>
Amounts not reported to management	(1,686)	6
Amounts reported to management but not included in the CI&ES.	6,286	6,296
<b>Cost of Services in the CI&amp;ES</b>	<b>19,312</b>	<b>20,270</b>

Commutated income from Section 106 grants was received in the year from developers but not included in the report to management. This is transferred to earmarked reserves to pay for future maintenance of community facilities, parks and open spaces under the Section 106 agreements. The amount shown in the Fees, Charges and Other Service income line in the following table is the net of the amount received in the year (£303,000) and the amount used to pay for maintenance in the year (£316,000).

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

<b>Reconciliation to Subjective Analysis - 2015/16</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	29,617	(13)	(5,795)	<b>23,809</b>	5,795	<b>29,604</b>
Interest and Investment Income	0	0	0	<b>0</b>	557	<b>557</b>
Changes in Fair Value of Investment Properties	0	0	0	<b>0</b>	6,762	<b>6,762</b>
Income from Council Tax	0	0	0	<b>0</b>	7,317	<b>7,317</b>
Income from Business Rates	0	0	0	<b>0</b>	2,993	<b>2,993</b>
Government Grants	29,782	0	(501)	<b>29,281</b>	7,719	<b>37,000</b>
<b>Total Income</b>	<b>59,399</b>	<b>(13)</b>	<b>(6,296)</b>	<b>53,090</b>	<b>31,143</b>	<b>84,233</b>
Employee Expenses	16,938	(7)	0	<b>16,931</b>	0	<b>16,931</b>
Other Operating Expenses	43,503	0	0	<b>43,503</b>	0	<b>43,503</b>
Support Service Recharges	9,003	0	0	<b>9,003</b>	0	<b>9,003</b>
Impairment Costs	107	0	0	<b>107</b>	0	<b>107</b>
Capital Charges to Revenue	3,816	0	0	<b>3,816</b>	0	<b>3,816</b>
Interest Payable	0	0	0	<b>0</b>	1	<b>1</b>
Precepts	0	0	0	<b>0</b>	1,160	<b>1,160</b>
Pension Fund Interest Costs	0	0	0	<b>0</b>	1,580	<b>1,580</b>
Gain on disposal of assets	0	0	0	<b>0</b>	(977)	<b>(977)</b>
<b>Total Operating Expenses</b>	<b>73,367</b>	<b>(7)</b>	<b>0</b>	<b>73,360</b>	<b>1,764</b>	<b>75,124</b>
<b>Deficit / (surplus) on the Provision of Services</b>	<b>13,968</b>	<b>6</b>	<b>6,296</b>	<b>20,270</b>	<b>(29,379)</b>	<b>(9,109)</b>



Comparative Transactions for 2014/15

<b>Reconciliation to Subjective Analysis - 2014/15</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	29,177	1,666	(5,852)	<b>24,991</b>	5,852	<b>30,843</b>
Interest and Investment Income	0	0	0	<b>0</b>	535	<b>535</b>
Changes in Fair Value of Investment Properties	0	0	0	<b>0</b>	(1,691)	<b>(1,691)</b>
Income from Council Tax	0	0	0	<b>0</b>	7,110	<b>7,110</b>
Income from Business Rates	0	0	0	<b>0</b>	1,286	<b>1,286</b>
Government Grants	30,287	0	(434)	<b>29,853</b>	9,361	<b>39,214</b>
<b>Total Income</b>	<b>59,464</b>	<b>1,666</b>	<b>(6,286)</b>	<b>54,844</b>	<b>22,453</b>	<b>77,297</b>
Employee Expenses	16,266	(20)	0	<b>16,246</b>	0	<b>16,246</b>
Other Operating Expenses	43,571	0	0	<b>43,571</b>	0	<b>43,571</b>
Support Service Recharges	8,455	0	0	<b>8,455</b>	0	<b>8,455</b>
Impairment Costs	2,694	0	0	<b>2,694</b>	0	<b>2,694</b>
Capital Charges to Revenue	3,190	0	0	<b>3,190</b>	0	<b>3,190</b>
Interest Payable	0	0	0	<b>0</b>	12	<b>12</b>
Precepts	0	0	0	<b>0</b>	1,104	<b>1,104</b>
Pension Fund Interest Costs	0	0	0	<b>0</b>	1,840	<b>1,840</b>
Gain on disposal of assets	0	0	0	<b>0</b>	(2,429)	<b>(2,429)</b>
<b>Total Operating Expenses</b>	<b>74,176</b>	<b>(20)</b>	<b>0</b>	<b>74,156</b>	<b>527</b>	<b>74,683</b>
<b>Deficit / (surplus) on the Provision of Services</b>	<b>14,712</b>	<b>(1,686)</b>	<b>6,286</b>	<b>19,312</b>	<b>(21,926)</b>	<b>(2,614)</b>

**7. Taxation and Non-Specific Grant Income**

The Council received income from Council Tax and revenue grants from the Department for Communities and Local Government (DCLG). These are summarised in the following table.

<b>Taxation / Non-Ringfenced Grants</b>	<b>Awarding Body</b>	<b>2014/15 £'000</b>	<b>2015/16 £'000</b>
Council Tax Income	Council Taxpayers	6,006	6,157
Revenue Support Grant	DCLG	2,381	1,696
New Homes' Bonus	DCLG	2,730	3,579
Small Business Rate Relief	DCLG	521	550
Transparency Code Set-Up	DCLG	6	8
Council Tax Freeze Grant	DCLG	64	65
'Long Term Empty' Properties Relief	DCLG	2	12
Retail Relief	DCLG	115	183
Flooding Relief	DCLG	43	1
Council Tax Family Annex Grant	DCLG	0	25
Letting Agents Transparency Grant	DCLG	0	1
Smoke & CO Alarms	DCLG	0	1
Multiplier Cap	DCLG	16	66
		<b>11,884</b>	<b>12,344</b>

The net income shown in the Comprehensive Income & Expenditure Statement for business rates is comprised of a number of transactions that are summarised in the table below.

<b>Business Rates Income &amp; Expenditure</b>	<b>2014/15 £'000</b>	<b>2015/16 £'000</b>
Share of income transferred from Collection Fund	18,695	22,389
Tariff paid to government	(16,016)	(16,322)
Share of deficit on Collection Fund in the year	(1,393)	(1,534)
Levy payable to government in respect of growth in the year	0	(1,540)
<b>Net Business Rates Income</b>	<b>1,286</b>	<b>2,993</b>

Capital grants and contributions were received in the year as shown in the following table and includes £28,000 in donated assets under section 106 agreements (2014/15 includes £2.537M in donated assets under section 106 agreements).

<b>Capital Grants and Contributions</b>	<b>Awarding Body</b>	<b>2014/15 £'000</b>	<b>2015/16 £'000</b>
Disabled Facilities Grant	DCLG	434	501
Contributions to works on property	Tenants / Other developers	251	487
Compulsory Purchase Order monies returned	Court Funds Office	40	0
Plug-in grant	Government	0	10
Contributions under s106 agreements / capital grants	Developers	2,758	534
		<b>3,483</b>	<b>1,532</b>

Other grants received in the year are shown in the following table.

<b>Specific Grants included in the Net Cost of Services</b>	<b>Awarding Body</b>	<b>2014/15 £'000</b>	<b>2015/16 £'000</b>
Housing Benefit Subsidy	DWP	28,834	28,810
Housing Benefit Administration Subsidy	DWP	429	372
Localising Council Tax Admin Subsidy	DCLG	93	88
Discretionary Housing Payments	DWP	153	96
Council Tax Reform New Burden Grant	DCLG	70	0
Business Rates Collection	DCLG	187	189
Business Rates New Burden Admin Costs Grant	DCLG	13	24
Community Right to Challenge	DCLG	9	0
Assets of Community Value	DCLG	8	0
Council Tax Flood Relief	DCLG	84	7
Individual Electoral Registration	DCLG	55	35
Bellwin Grant - Emergency Flood Assistance	DCLG	47	0
Repair and Renewal Administration Grant	DCLG	4	5
Property Searches New Burden Grant	DCLG	0	81
Neighbourhood Planning and Local Planning: Local Authority Service Redesign and Capacity Building Fund	DCLG	0	8
Flooding Repair and Renewal Grant	DCLG	301	67
		<b>30,287</b>	<b>29,782</b>

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

Income from the special Council Tax Levy which applies in the Andover Town Council area was £294,500 in 2015/16 (£287,400 – 2014/15).

#### 9. **External Audit Costs**

In 2015/16 Test Valley Borough Council incurred the following fees in relation to external audit and inspection.

<b>Class of Work</b>	<b>2014/15 £'000</b>	<b>2015/16 £'000</b>
External Audit Fees	69	54
District Council Rebate	(6)	0
Certification of Grants Claim and Returns	17	11
	<b>80</b>	<b>65</b>

#### 10. **Members' Allowances**

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

	2014/15 £'000	2015/16 £'000
Allowances	420	430
Expenses	13	12
<b>Total Members' Allowances</b>	<b>433</b>	<b>442</b>

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

The number of employees whose remuneration, including termination benefits but excluding pension contributions was £50,000 or more in bands of £5,000 in 2015/16 was:-

Remuneration Band	2014/15 Number of Employees	2015/16 Number of Employees
£50,000 - £54,999	12	10
£55,000 - £59,999	2	1
£60,000 - £64,999	1	3
£65,000 - £69,999	8	5
£70,000 - £74,999	0	3
£75,000 - £79,999	0	0
£80,000 - £84,999	0	1
£85,000 - £94,999	0	0
£95,000 - £99,999	1	0
£100,000 - £104,999	1	2
£105,000 - £124,999	0	0
£125,000 - £129,999	1	0
£130,000 - £139,999	0	0
£140,000 - £144,999	0	1

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 Council 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 following officers 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	
	14/15 £'000	15/16 £'000	14/15 £'000	15/16 £'000	14/15 £'000	15/16 £'000	14/15 £'000	15/16 £'000	14/15 £'000	15/16 £'000
Chief Executive - Note (a)	121	136	7	8	128	144	15	18	143	162
Corporate Director	96	96	7	7	103	103	12	13	115	116
Corporate Director	96	96	4	4	100	100	12	13	112	113
Head of Administration - Note (b)	47	0	4	0	51	0	6	0	57	0
Head of Community & Leisure	63	65	6	6	69	71	8	9	77	80
Head of Environmental Services	64	65	5	8	69	73	8	9	77	82
Head of Estates	63	65	4	4	67	69	8	9	75	78
Head of Finance	63	65	4	4	67	69	8	9	75	78
Head of Housing & Environmental Health	63	65	5	5	68	70	9	9	77	79
Head of IT - Note (c)	63	65	4	5	67	70	8	9	75	79
Head of Legal & Democratic	58	62	5	6	63	68	8	8	71	76
Head of Planning & Building	64	65	4	4	68	69	8	9	76	78
Head of Planning Policy & Transport - Note (d)	63	59	5	3	68	62	9	6	77	68
Acting Head of Revenues - Benefits & Customer Services - Note (e)	11	33	1	2	12	35	1	4	13	39
Acting Head of Revenues - Local Taxation Note (e)	11	33	1	2	12	35	1	4	13	39

Note (a) – 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 2015/16 were £21,400 (2014/15 £4,900).

Note (b) – The Head of Administration retired during 2014/15, therefore the remuneration for 2014/15 shows part year costs. This post has now been subject to a restructure, so there are no costs for 2015/16.

Note (c) –The Council shared the Head of IT with Winchester City Council in the year and received £42,600 as a contribution towards the employment costs of the postholder (2014/15 £41,400).

Note (d) – The Head of Planning, Policy and Transport left during 2015/16, therefore the remuneration shows part year costs.

Note (e) –With effect from 1<sup>st</sup> December 2014, the Head of Revenues post has been split into 2 half time posts. The officers in these posts also have non-senior officer roles for the other half of their time and the table above includes the

costs for the two part time Senior Officer posts only (2014/15 comparative shows part year costs).

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

Exit Package Band	Number of Redundancies		Number of Other Departures		Total Cost of Exit Packages by Band	
	2014/15	2015/16	2014/15	2015/16	2014/15 £'000	2015/16 £'000
£0 - £20,000	0	1	6	7	20	39
£20,001 - £40,000	1	1	0	0	33	39
<b>Total</b>	<b>1</b>	<b>2</b>	<b>6</b>	<b>7</b>	<b>53</b>	<b>78</b>

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

## 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.

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>2014/15 £'000</b>	<b>2015/16 £'000</b>
<b><u>Cost of Services</u></b>		
Current Service Costs	2,180	2,660
Unfunded Benefits Paid Out	(220)	(230)
<b><u>Financing &amp; Investment Income &amp; Expenditure</u></b>		
Interest Cost	5,100	4,300
Interest Income	(3,260)	(2,720)
<b>Total amount included in the Surplus on Provision of Services</b>	<b>3,800</b>	<b>4,010</b>
<b><u>Other Comprehensive Income &amp; Expenditure</u></b>		
Actuarial (gains) / losses due to change in financial assumptions	13,250	(4,620)
Experience gains on liabilities	(790)	(1,450)
Remeasurement gains on assets	(7,610)	1,510
<b>Total amount charged to the Comprehensive Income &amp; Expenditure Statement</b>	<b>8,650</b>	<b>(550)</b>
<b><u>Movement In Reserves Statement</u></b>		
Reversal of net charges made to the deficit on the provision of services in accordance with the Code	(3,800)	(4,010)
Actual employer's contributions payable	2,090	2,190
<b>Total Amount included in the Movement in Reserves Statement (note 5)</b>	<b>(1,710)</b>	<b>(1,820)</b>

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 in the pension fund 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 2015/16 the rate was 13.1% plus a fixed sum contribution of £722,000 (2014/15 13.1% plus £664,000 fixed sum contribution).

It is forecast that pension contributions payable by the employer in 2016/17 in respect of regular contributions will amount to £2.3M and in respect of unfunded liabilities will amount to £230,000.

#### Assets & Liabilities in relation to retirement benefits

The following tables show the Council's liabilities to the Pension Fund and its share of the Fund's assets at the year end. The net liability at 31<sup>st</sup> March 2016 was £47.79M (2014/15 - £50.53M).

<b>Liabilities</b>	<b>2014/15 £'000</b>	<b>2015/16 £'000</b>
<b>Opening present value of funded liabilities</b>	<b>116,690</b>	<b>132,720</b>
Current Service Cost	2,180	2,660
Interest Cost	4,950	4,180
Contributions by Participants	760	780
Actuarial (gain) / loss on liabilities due to change in financial assumptions	13,030	(4,540)
Experience gains on liabilities	(760)	(1,390)
Net benefits paid out (including unfunded liabilities)	(4,130)	(4,740)
<b>Closing present value of unfunded liabilities</b>	<b>132,720</b>	<b>129,670</b>
<b>Opening present value of unfunded liabilities</b>	<b>3,620</b>	<b>3,740</b>
Interest Cost	150	120
Actuarial (gain) / loss on liabilities due to change in financial assumptions	220	(80)
Experience (gains) / losses on liabilities	(30)	(60)
Net Benefits Paid Out	(220)	(230)
<b>Closing present value of unfunded liabilities</b>	<b>3,740</b>	<b>3,490</b>
<b>Total present value of scheme liabilities</b>	<b>136,460</b>	<b>133,160</b>

<b>Assets</b>	<b>2014/15 £'000</b>	<b>2015/16 £'000</b>
<b>Opening fair value of assets</b>	<b>76,340</b>	<b>85,930</b>
Interest income on assets	3,260	2,720
Actuarial gain / (loss) on assets	7,610	(1,510)
Contributions by the employer	2,090	2,190
Contributions by Participants	760	780
Net benefits paid out	(4,130)	(4,740)
<b>Closing fair value of assets</b>	<b>85,930</b>	<b>85,370</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>2014/15 £'000</b>	<b>2015/16 £'000</b>
Interest income on assets	3,260	2,720
Actuarial gains / (losses) on assets	7,610	(1,510)
<b>Actual return on assets</b>	<b>10,870</b>	<b>1,210</b>

#### 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 2013.

The principal assumptions used by the actuary were:

	2014/15	2015/16
Discount rate for funded liabilities	3.2%	3.4%
Discount rate for unfunded liabilities	3.2%	3.4%
Rate of Inflation - RPI (funded)	2.9%	2.9%
Rate of Inflation - RPI (unfunded)	2.9%	2.9%
Rate of Inflation - CPI (funded)	1.8%	1.8%
Rate of Inflation - CPI (unfunded)	1.8%	1.8%
Rate of increase in salaries	3.3%	3.3%
Rate of increase in pensions in payment	1.8%	1.8%
Rate of increase in pensions in deferment	1.8%	1.8%
<b>Mortality Assumptions</b>		
Longevity at 65 for current pensioners (years)		
Men	24.5	24.6
Women	26.3	26.4

It is assumed that each member will surrender pension on retirement, such that the total cash received (including any accrued lump sum from pre-2008 service) is 70% of the permitted maximum.

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 2016.

	2014/15	2015/16
Equities	57.8%	56.3%
Bonds	27.0%	27.8%
Property	8.0%	8.2%
Other	7.2%	7.7%
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>

The figures in this note are sensitive to the assumptions used. The approximate impact of changing the key assumptions on the present value of the funded defined benefit obligation as at 31<sup>st</sup> March 2016 and the projected service cost for the year ending 31<sup>st</sup> March 2017 is set out in the following table. In each case, only the assumption mentioned is altered; all other assumptions remain the same.

<b>Discount rate</b>		
Adjustment to rate	+0.1% pa	-0.1% pa
Present value of total obligation (£M)	127.46	131.92
% change in present value of total obligation	-1.7%	1.7%
Projected service cost (£M)	2.51	2.67
Approx % change in projected service cost	-3.1%	3.2%
<b>Rate of increase in salaries</b>		
Adjustment to salary increase rate	+0.1% pa	-0.1% pa
Present value of total obligation (£M)	130.04	129.30
% change in present value of obligation	0.3%	-0.3%
Projected service cost (£M)	2.59	2.59
Approx % change in projected service cost	0.0%	0.0%
<b>Rate of increase to pensions in payment</b>		
Adjustment to pension rate	+0.1% pa	-0.1% pa
Present value of total obligation (£M)	131.54	127.83
% change in present value of obligation	1.4%	-1.4%
Projected service cost (£M)	2.67	2.51
Approx % change in projected service cost	3.2%	-3.1%
<b>Post retirement mortality assumptions</b> (follow pattern of person one year older or younger)		
Adjustment to pension rate	-1 year	+1 year
Present value of total obligation (£M)	132.96	126.36
% change in present value of obligation	2.5%	-2.5%
Projected service cost (£M)	2.68	2.50
Approx % change in projected service cost	3.4%	-3.4%

### 13. Leases

#### **Operating Leases**

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.

	<b>2014/15</b>	<b>2015/16</b>
	<b>£'000</b>	<b>£'000</b>
Receivable within one year	5,872	6,222
Receivable within one to five years	21,565	24,053
Receivable after five years	372,747	376,642
<b>Total minimum lease rentals receivable</b>	<b>400,184</b>	<b>406,917</b>

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

In 2015/16 the Council recognised income from contingent rents of £789,000 (2014/15 - £773,000).

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

These are tangible assets which are held or used in the production or supply of goods and services, for rental to others, or for administrative purposes, and are expected to be used during more than one period.

They are further classified into:

- Operational assets
  - Land & buildings (e.g. offices and car parks)
  - Vehicles, Plant & Equipment
  - Infrastructure assets (e.g. footpaths and cycle ways)
  - Community assets (e.g. parks and open spaces); and
- Non-Operational assets
  - Surplus assets (i.e. assets that are not being used to deliver services, but which do not meet the criteria to be classified as either investment properties or assets held for sale)

The following table shows the movement in balances of items of property, plant and equipment in the year.

2015/16	Land & Buildings	Vehicles, Plant & Equipment	Infra structure	Community	Surplus Assets	Total
Cost / Valuation	£'000	£'000	£'000	£'000	£'000	£'000
Historic Cost b/f	43,675	6,541	709	5,193	0	56,118
Revaluation Increases shown in the Revaluation Reserve b/f	17,511	11	54	0	0	17,576
Revaluation Decreases shown in the CI&ES b/f	(6,048)	(134)	(16)	(910)	0	(7,108)
Additions	1,461	612	24	990	0	3,087
Reclassification	(559)	0	0	0	559	0
Revaluations	311	0	0	0	0	311
Reverse depreciation on disposed / revalued assets	(18)	(287)	0	0	0	(305)
Impairments in year	0	0	0	0	(107)	(107)
<b>Cost / Valuation at 31st March 2016</b>	<b>56,333</b>	<b>6,743</b>	<b>771</b>	<b>5,273</b>	<b>452</b>	<b>69,572</b>
<b>Depreciation</b>						
Historic Cost Depreciation b/f	(615)	(2,812)	(44)	(290)	0	(3,761)
Depreciation on Revaluations b/f	(146)	(5)	0	0	0	(151)
Charge in year - Historic Cost	(977)	(850)	(30)	(81)	0	(1,938)
Charge in year - Revalued Amounts	(279)	(1)	(8)	0	0	(288)
Reverse depreciation on disposed / revalued assets	18	287	0	0	0	305
<b>Depreciation at 31st March 2016</b>	<b>(1,999)</b>	<b>(3,381)</b>	<b>(82)</b>	<b>(371)</b>	<b>0</b>	<b>(5,833)</b>
<b>Net Book Value at 31st March 2016</b>	<b>54,334</b>	<b>3,362</b>	<b>689</b>	<b>4,902</b>	<b>452</b>	<b>63,739</b>
<b>Net Book Value at 31st March 2015</b>	<b>54,377</b>	<b>3,601</b>	<b>703</b>	<b>3,993</b>	<b>0</b>	<b>62,674</b>

Comparative Information for 2014/15

2014/15	Land & Buildings	Vehicles, Plant & Equipment	Infra structure	Community	Surplus Assets	Total
Cost / Valuation	£'000	£'000	£'000	£'000	£'000	£'000
Historic Cost b/f	42,826	5,966	825	4,755	0	54,372
Revaluation Increases shown in the Revaluation Reserve b/f	18,096	11	0	0	0	18,107
Revaluation Decreases shown in the CI&ES b/f	(3,727)	(323)	0	(910)	0	(4,960)
Additions	3,669	1,191	18	438	0	5,316
Revaluations	44	0	54	0	0	98
Reverse depreciation on disposed / revalued assets	(3,449)	(427)	(134)	0	0	(4,010)
Impairments in year	(2,321)	0	(16)	0	0	(2,337)
<b>Cost / Valuation at 31st March 2015</b>	<b>55,138</b>	<b>6,418</b>	<b>747</b>	<b>4,283</b>	<b>0</b>	<b>66,586</b>
<b>Depreciation</b>						
Historic Cost Depreciation b/f	(2,528)	(2,433)	(147)	(233)	0	(5,341)
Depreciation on Revaluations b/f	(568)	(4)	0	0	0	(572)
Charge in year - Historic Cost	(907)	(806)	(31)	(57)	0	(1,801)
Charge in year - Revalued Amounts	(207)	(1)	0	0	0	(208)
Reverse depreciation on disposed / revalued assets	3,449	427	134	0	0	4,010
<b>Depreciation at 31st March 2015</b>	<b>(761)</b>	<b>(2,817)</b>	<b>(44)</b>	<b>(290)</b>	<b>0</b>	<b>(3,912)</b>
<b>Net Book Value at 31st March 2015</b>	<b>54,377</b>	<b>3,601</b>	<b>703</b>	<b>3,993</b>	<b>0</b>	<b>62,674</b>
<b>Net Book Value at 31st March 2014</b>	<b>54,099</b>	<b>3,217</b>	<b>678</b>	<b>3,612</b>	<b>0</b>	<b>61,606</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 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.

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.

	<b>Cost</b>	<b>Depreciated Cost</b>	<b>Reval 2011/12</b>	<b>Reval 2012/13</b>	<b>Reval 2013/14</b>	<b>Reval 2014/15</b>	<b>Reval 2015/16</b>	<b>Total value of PPE</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Land and Buildings	0	79	2,258	8,592	4,008	38,785	612	<b>54,334</b>
Vehicles, Plant & Equipment	169	3,193	0	0	0	0	0	<b>3,362</b>
Infrastructure	0	276	0	0	0	413	0	<b>689</b>
Community	3,761	1,141	0	0	0	0	0	<b>4,902</b>
Surplus Assets	0	0	0	0	0	0	452	<b>452</b>
<b>Total PPE Assets</b>	<b>3,930</b>	<b>4,689</b>	<b>2,258</b>	<b>8,592</b>	<b>4,008</b>	<b>39,198</b>	<b>1,064</b>	<b>63,739</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 2015/16 were carried out by the Council's internal RICS registered valuer and all revaluations were carried out as at 31<sup>st</sup> March 2016.

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.

Surplus assets are measured at fair value.

At the 31st March 2016 contractual commitments on existing capital schemes totalled £2.837M (2014/15 £416,000).

## 15. Investment Properties

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.

	<b>2014/15</b>	<b>2015/16</b>
	<b>£'000</b>	<b>£'000</b>
Rental income from Investment Property	6,351	6,389
Investment Property direct costs	(499)	(594)
<b>Net Investment Property income</b>	<b>5,852</b>	<b>5,795</b>

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.

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

	<b>2014/15</b>	<b>2015/16</b>
	<b>£'000</b>	<b>£'000</b>
<b>Balance at start of year</b>	<b>78,062</b>	<b>74,599</b>
Purchase of new property	0	5,773
Expenditure on existing property	78	145
Expenditure on property under construction	0	325
Net changes in fair value of property	(1,691)	6,762
Disposals	(1,850)	(20)
<b>Balance at end of year</b>	<b>74,599</b>	<b>87,584</b>

### **Fair Value Hierarchy and Valuation Techniques**

The Council's investment property portfolio has been assessed as Level 2 for valuation purposes (see Note 1.22 for an explanation of Fair Value levels).

The fair value of the Investment property portfolio has been measured using the investment method of valuation. Valuations have taken into account existing lease terms and rentals from the tenancy schedule, research into market evidence, market rentals and yields.

In estimating the fair value of the Council's investment properties, the highest and best use of the properties is deemed to be their current use.

Investment property under construction is measured at cost.

There has been no change in the valuation techniques used during the year for investment properties.

The fair value of the Council's investment property is measured annually at each reporting date. All valuations are carried out internally by the Council's RICS registered valuer, in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors.

## **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 a periodic 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.

The following table summarises the movement in balances for intangible assets in the year.

	<b>Software Licences £'000</b>	<b>Market Rights £'000</b>	<b>Total £'000</b>
<b>Cost or Valuation</b>			
Cost / Fair Value b/f	773	57	830
Additions	0	0	0
Impairments in year	0	0	0
<b>Cost / Valuation at 31st March 2016</b>	<b>773</b>	<b>57</b>	<b>830</b>
<b>Amortisation</b>			
Amortisation of Historic Cost b/f	(522)	0	(522)
Charge for the year	(56)	0	(56)
<b>Amortisation at 31st March 2016</b>	<b>(578)</b>	<b>0</b>	<b>(578)</b>
<b>Net Book Value as at 31st March 2016</b>	<b>195</b>	<b>57</b>	<b>252</b>
<b>Net Book Value as at 31st March 2015</b>	<b>251</b>	<b>57</b>	<b>308</b>

Comparative information for 2014/15

	<b>Software Licences £'000</b>	<b>Market Rights £'000</b>	<b>Total £'000</b>
<b>Cost or Valuation</b>			
Cost / Fair Value b/f	769	414	1,183
Additions	4	0	4
Impairments in year	0	(357)	(357)
<b>Cost / Valuation at 31st March 2015</b>	<b>773</b>	<b>57</b>	<b>830</b>
<b>Amortisation</b>			
Amortisation of Historic Cost b/f	(467)	0	(467)
Charge for the year	(55)	0	(55)
<b>Amortisation at 31st March 2015</b>	<b>(522)</b>	<b>0</b>	<b>(522)</b>
<b>Net Book Value as at 31st March 2015</b>	<b>251</b>	<b>57</b>	<b>308</b>
<b>Net Book Value as at 31st March 2014</b>	<b>302</b>	<b>414</b>	<b>716</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>2014/15 £'000</b>	<b>2014/15 £'000</b>	<b>2015/16 £'000</b>	<b>2015/16 £'000</b>
Included in Community Assets	172	347	197	372
Not included in the Balance Sheet	0	190	0	190
<b>Total</b>	<b>172</b>	<b>537</b>	<b>197</b>	<b>562</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 on Disposal of Assets**

During the year, the Council made a net profit on the disposal of fixed assets of £977,000 (2014/15 £2.429M). An analysis of this profit is shown in the following table.

	<b>2014/15 £'000</b>	<b>2015/16 £'000</b>
Right To Buy Contributions	489	987
Profit on disposal of property, plant & equipment	14	10
Profit / (loss) on disposal of investment property	1,926	(20)
<b>Total Profit on Disposal of Assets</b>	<b>2,429</b>	<b>977</b>

#### 19. **Capital Expenditure and Financing**

Total Capital Expenditure to be financed in 2015/16 amounted to £11.286M. This can be analysed as expenditure on new assets (£8.977M), revenue expenditure funded from capital under statute (£1.534M) and expenditure classified as financial instruments (£775,000).

	<b>2014/15 £'000</b>	<b>2015/16 £'000</b>
<b>Opening Capital Financing Requirement</b>	<b>(660)</b>	<b>(660)</b>
<b>Capital Expenditure</b>		
Property, Plant & Equipment	5,316	3,087
Investment Property	78	5,918
Intangible Assets	4	0
Revenue Expenditure Funded from Capital Under Statute	1,126	1,534
Capital loan	0	650
Equity investment	0	125
<b>Sources of Finance</b>		
Capital Receipts	(283)	(7,104)
Government Grants and Other Contributions	(3,483)	(1,532)
Contributions from Revenue / Reserves	(2,758)	(2,678)
<b>Closing Capital Finance Requirement</b>	<b>(660)</b>	<b>(660)</b>

The Property, Plant & Equipment line and the Government Grants and Contributions line above for 2015/16 include the assumed cost and contribution of a donated asset valued at £28,000 (2014/15 £2.537M) which the Council did not purchase but which was adopted during the year as part of a S106 agreement.



The Government Grants and Other Contributions line shown above represents the total 'Capital Grants and Contributions' figure per the Comprehensive Income & Expenditure Statement.

Total capital expenditure has been analysed on a service basis in the following table:

	<b>2015/16 Long-Term Assets</b>	<b>2015/16 Revenue Expenditure Funded From Capital</b>	<b>2015/16 Total</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Community & Leisure	1,818	244	<b>2,062</b>
Environmental	410	0	<b>410</b>
Estates & Economic Development	6,526	66	<b>6,592</b>
Housing & Env. Health	0	983	<b>983</b>
IT	104	3	<b>107</b>
Planning Policy & Transport	147	238	<b>385</b>
<b>Total Expenditure</b>	<b>9,005</b>	<b>1,534</b>	<b>10,539</b>

The table above excludes the capital expenditure on financial instruments which are included in note 29.

## 20. **Cash and Cash Equivalents**

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

	<b>2014/15 £'000</b>	<b>2015/16 £'000</b>
Cash held by the Council	6	6
Bank Current Accounts	963	6,690
Short-term deposits	12,476	12,999
<b>Total Cash &amp; Cash Equivalents</b>	<b>13,445</b>	<b>19,695</b>

## 21. **Analysis of Debtors**

	<b>2014/15 £'000</b>	<b>2015/16</b>		<b>Net £'000</b>
		<b>Debtor £'000</b>	<b>Bad Debt Allowance £'000</b>	
Central Government Bodies	77	500	0	500
Sundry Debtors	4,719	7,468	(1,714)	5,754
Collection Fund	925	1,665	(671)	994
Housing	7	63	(56)	7
Car Leasing and Loans	86	95	(15)	80
<b>Total Debtors</b>	<b>5,814</b>	<b>9,791</b>	<b>(2,456)</b>	<b>7,335</b>

Included within car leasing and loans above are loans to employees for vehicle purchases. At 31<sup>st</sup> March 2016, £72,000 (2014/15 - £78,000) was outstanding.

## 22. Analysis of Creditors

	<b>2014/15 £'000</b>	<b>2015/16 £'000</b>
Sundry Creditors	4,972	4,813
Collection Fund	1,738	5,832
Central Government	1,213	1,717
Section 106 Balances	5,159	9,604
Compensated Absences Accrual	173	176
Finance Lease Creditors due in less than 1 year	34	0
<b>Total Creditors</b>	<b>13,289</b>	<b>22,142</b>

The Collection Fund balances relate to Council Tax and Business Rates. There are two elements. The first is the Council's share of payments from taxpayers in respect of 2016/17 that have been received before the end of 2015/16. The second is the balance of the cash that is owed to the other preceptors on the Collection Fund in respect of the movements on the Collection Fund in the year. For more details on the Collection Fund, please see pages 61 to 64.

The Collection Fund balances are shown in the following table.

	<b>2014/15 £'000</b>	<b>2015/16 £'000</b>
Council's share of Council Tax receipts in advance	86	102
Other preceptors' share of Council Tax movement	1,306	1,589
Council's share of Business Rates' receipts in advance	155	565
Other preceptors' share of Business Rates movement	191	3,576
<b>Total Collection Fund balances</b>	<b>1,738</b>	<b>5,832</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.

	<b>2014/15 £'000</b>	<b>2015/16 £'000</b>
Open Spaces / Recreation	2,950	5,164
Highways / Cycle Routes / Green Travel	508	742
Affordable Housing	298	332
Education & Skills' Development	376	275
Public Art	173	254
Community Facilities	676	2,587
Other	178	250
<b>Total Section 106 balances</b>	<b>5,159</b>	<b>9,604</b>

The major balances on the section 106 contributions relate to big housing developments at East Anton, Abbotswood, Picket Twenty and Picket Piece.

## 23. Provisions

The full balance of provisions shown on the Balance Sheet (2015/16 £901,000; 2014/15 £2.298M) represents the Council's share of backdated business rates appeals that are expected to be awarded in future years. It is not possible to determine when appeals will be settled; therefore the whole balance is shown in current liabilities.

The provision was calculated using information provided by the Valuation Office as at 31<sup>st</sup> March 2016 and took into account appeals lodged against the 2005 and 2010 ratings' lists.

An analysis of the success rate of previous appeals and the reduction in rateable value was carried out. This was then extrapolated over the outstanding appeals to arrive at the provision in these accounts.

The following table details the movement in the provision.

	2014/15 £'000	2015/16 £'000
<b>Balance at start of year</b>	<b>1,454</b>	<b>2,298</b>
Amounts charged to the provision	(1,454)	(649)
Increase / (decrease) in provision	2,298	(748)
<b>Balance at end of year</b>	<b>2,298</b>	<b>901</b>

## 24. Trust Funds

The Council operates a number of trusts for civic purposes. The balances at the end of the year were £59,000 (2014/15 £102,000). The most significant balance is in respect of the Romsey Walk and Pleasure Ground - £53,000 (2014/15 - £96,000).

## 25. Notes to the Cash Flow Statement

An analysis of items included in the Cash Flow Statement is shown in the following tables.

<b>Net Cash inflow from Operating Activities includes:</b>	2014/15 £'000	2015/16 £'000
Interest received	535	557
Interest paid	(12)	(1)

<b>Other Non-Cash items</b>	<b>2014/15 £'000</b>	<b>2015/16 £'000</b>
Movement in Bad Debt Allowance	343	27
Movement in provision in respect of Business Rates appeals	844	(1,397)
Donated assets under s106 agreements	(2,537)	(28)
Other non-cash items	(97)	(49)
<b>Other Non-Cash items</b>	<b>(1,447)</b>	<b>(1,447)</b>

<b>Other income / (payments) for financing activities</b>	<b>2014/15 £'000</b>	<b>2015/16 £'000</b>
Movement in Council Tax debtors	(8)	(11)
Movement in amounts owed to Council Tax preceptors	604	282
Movement in Business Rates debtors	183	(148)
Movement in amounts owed to Business Rates preceptors	(867)	3,385
<b>Other income / (payments) for financing activities</b>	<b>(88)</b>	<b>3,508</b>

## 26. 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 following table. More information on each reserve is given in the following paragraphs.

<b>Reserve</b>	<b>2014/15 £'000</b>	<b>2015/16 £'000</b>
General Fund Balance	2,000	2,000
Revenue & Earmarked Reserves	17,584	17,134
Capital Receipts Reserve	32,272	26,132
<b>Total Usable Reserves</b>	<b>51,856</b>	<b>45,266</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.

### 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 following table.

	<b>Balance as at 31/03/2014</b>	Transfers In 2014/15	Transfers Out 2014/15	<b>Balance as at 31/03/2015</b>	Transfers In 2015/16	Transfers Out 2015/16	<b>Balance as at 31/03/2016</b>
	<b>£'000</b>	£'000	£'000	<b>£'000</b>	£'000	£'000	<b>£'000</b>
Income Equalisation Reserve	355	0	0	355	0	0	355
Budget Equalisation Reserve	635	300	(238)	697	0	(15)	682
Investment Equalisation Reserve	492	0	0	492	0	0	492
Pension Equalisation Reserve	200	0	0	200	0	0	200
Collection Fund Equalisation Reserve	241	1,495	0	1,736	836	(2,572)	0
Capacity Building Reserve	117	0	0	117	43	0	160
Special Projects Reserve	115	0	(2)	113	178	(28)	263
New Homes' Bonus Reserve	2,627	2,730	(1,130)	4,227	3,579	(2,359)	5,447
Asset Management Plan	2,989	1,456	(1,896)	2,549	1,743	(1,856)	2,436
Budget Carry Forward Reserve	192	58	(192)	58	215	(58)	215
Local Authority Business Growth Incentive	85	0	(10)	75	0	(69)	6
Borough Election Reserve	85	0	0	85	0	(85)	0
All Risks Self-Insurance Reserve	152	0	0	152	0	0	152
Business Support (Floods)	343	0	(196)	147	0	0	147
Local Development Framework Reserve	275	0	(61)	214	0	(138)	76
Waste Performance & Efficiency Grant	94	0	0	94	0	(25)	69
Benefit Reform Reserve	160	0	0	160	0	0	160
Developer contribution for future years' maintenance costs	3,802	1,904	(243)	5,463	303	(316)	5,450
Enterprise and Innovation Reserve	0	550	(12)	538	0	(76)	462
Valley Housing Ltd Reserve	0	0	0	0	250	0	250
Other Earmarked Reserves	80	70	(38)	112	2	(2)	112
<b>Total Earmarked Revenue Reserves</b>	<b>13,039</b>	<b>8,563</b>	<b>(4,018)</b>	<b>17,584</b>	<b>7,149</b>	<b>(7,599)</b>	<b>17,134</b>

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 (2014/15 £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.

#### 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 following table.

	2014/15		2015/16	
	£'000	£'000	£'000	£'000
<b>Balance at start of year</b>		<b>28,319</b>		<b>32,272</b>
Capital Receipts				
Sale of Assets	3,790		10	
Right to Buy Receipts	489		987	
		4,279		997
Capital Expenditure				
Purchase of Assets	409		(6,071)	
Revenue Expenditure funded from Capital Under Statute	(692)		(1,033)	
Repayment of finance lease creditor	(43)		(33)	
		(326)		(7,137)
<b>Balance at end of year</b>		<b>32,272</b>		<b>26,132</b>

## 27. 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>2014/15 £'000</b>	<b>2015/16 £'000</b>
Revaluation Reserve	17,431	17,454
Capital Adjustment Account	120,795	135,249
Deferred Credits	7	7
Collection Fund Adjustment Account	(1,322)	2,034
Accumulated Absences Account	(173)	(176)
Pension Fund Reserve	(50,530)	(47,790)
<b>Total Unusable Reserves</b>	<b>86,208</b>	<b>106,778</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
- reclassified as investment properties.

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.

	2014/15		2015/16	
	£'000	£'000	£'000	£'000
<b>Balance at start of year</b>		<b>17,540</b>		<b>17,431</b>
Upward revaluations of assets in the year	4,331		311	
Downward revaluations of assets in the year	(4,233)		0	
Depreciation of previous years' revaluation gains	(207)		(288)	
Reverse gains on reclassified assets	0		0	
		(109)		23
<b>Balance at end of year</b>		<b>17,431</b>		<b>17,454</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.

	2014/15		2015/16	
	£'000	£'000	£'000	£'000
<b>Balance at start of year</b>		<b>123,445</b>		<b>120,795</b>
Transfer from Revaluation Reserve	207		288	
Revaluation gains / (losses) on Investment Property	(1,690)		6,762	
Assets purchased in the year	5,398		9,130	
Repayment of finance lease obligations	43		33	
Capital loan advanced in year	0		650	
Transfer from Capital Receipts Reserve	692		1,033	
		4,650		17,896
Disposal of assets	(1,850)		(20)	
Depreciation of non-current assets	(2,009)		(2,226)	
Amortisation of intangible assets	(55)		(56)	
Impairments	(2,694)		(107)	
Revenue expenditure funded from capital	(692)		(1,033)	
		(7,300)		(3,442)
<b>Balance at end of year</b>		<b>120,795</b>		<b>135,249</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

The Comprehensive Income and Expenditure Statement shows the Council's share of the income generated from Council Tax and Business Rates in the year. However, statutory accounting arrangements require that any variances from budget cannot be treated as income or expenditure by the Council until later years. To ensure the correct accounting treatment for this, a transfer is made to the Collection Fund Adjustment Account for the movement in the surplus or deficit in the year.

This account shows the Council's share of the accumulated difference between the estimated and actual returns in the Collection Fund (see pages 61 to 64).

The surplus on the Council Tax part of the Collection Fund at 31<sup>st</sup> March 2016 was £2.381M, of which the Council's share is £269,000. The surplus in respect of business rates was £4.354M of which the Council's share was £1.765M.

	2014/15 £'000	2015/16 £'000
Share of Council Tax Surplus b/f	185	241
Movement in the year	56	28
<b>Share of Council Tax Surplus c/f</b>	<b>241</b>	<b>269</b>
Share of Business Rates' Deficit b/f	(170)	(1,563)
Movement in the year	(1,393)	3,305
Renewable Energy Business rates retained	0	23
<b>Share of Business Rates' Surplus / (Deficit) c/f</b>	<b>(1,563)</b>	<b>1,765</b>
<b>Balance on Collection Fund Adjustment Account c/f</b>	<b>(1,322)</b>	<b>2,034</b>

### 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.



## 28. Net Assets Employed

The net assets (total assets less liabilities) of the Council in total are £152.044M (2014/15 £138.064M). This represents the total equity of the Council.

The net assets figure is net of the deficit on the pension fund of £47.79M (2014/15 £50.53M) (see note 12 above). Without this provision the Council's net assets would be £199.834M (2014/15 £188.594M).

The effect of the pensions reserve is to reduce the Council's net worth by 23.91% (2014/15 – 26.79%).

## 29. 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 £557,000 (2014/15 £508,000 – the CIES in 2014/15 included an additional £27,000 of non-investment income).

The investment structure is based mainly on cash deposits and loans to other local authorities over varying terms of maturity. At the Balance Sheet date the Council had investments (fixed-term deposits and call accounts) of £56.506M (2014/15 £59.258M), plus accrued interest of £193,000 (2014/15 £119,000).

### **Financial Instrument Balances**

The following categories of financial instrument are carried in the Balance Sheet.

	31st March 2015		31st March 2016	
	Current £'000	Long-Term £'000	Current £'000	Long-Term £'000
<u>Investments</u>				
Cash & Cash Equivalents	13,445	0	19,695	0
Loans and Receivables	46,902	0	38,638	5,062
Unquoted equity investment at cost	0	0	0	125
<u>Debtors</u>				
Sundry Debtors	6,112	257	7,464	256
Housing	63	0	63	0
Car Leasing and Loans	101	0	95	0
<u>Creditors</u>				
Sundry Creditors	(3,406)	0	(3,342)	0
Finance Lease Creditors	(34)	0	0	0

### Unquoted Equity Instruments Measured at Cost (where fair value cannot be reliably measured)

The Council has a shareholding in HCB Holding Ltd. The 125 A Class Common Shares are carried at a cost of £1,000 per share (being the par value of £1 plus a premium of £999 per share) and have not been valued as a fair value cannot be measured reliably. The company was formed in July 2014 and has no established trading history. There are also no established companies with similar aims in the Council's area whose shares are traded and which might provide comparable market data. The Council has no intention to dispose of the shareholding.

### Fair Value of Financial Instruments that are not Measured at Fair Value

The Council's financial assets are carried in the Balance Sheet at amortised cost. Their fair value can be assessed by calculating the present value of the cash flows that take place over the remaining life of the instruments, using the following assumptions:

- For loans receivable prevailing benchmark market rates have been used to provide the fair value
- No early repayment or impairment is recognised
- Where an instrument has a maturity of less than 12 months or is a trade or other receivable, the fair value is taken to be the carrying amount or billed amount

The fair values are calculated as follows:

	31st March 2015		31st March 2016	
	Carrying Value £'000	Fair Value £'000	Carrying Value £'000	Fair Value £'000
Cash	6	6	6	6
Cash Equivalents	13,439	13,439	19,689	19,689
Deposits with banks and building societies	46,902	46,925	31,596	31,608
Short term Loans and Receivables	0	0	7,042	7,044
Long term Loans and Receivables	0	0	5,062	5,170
<b>Total</b>	<b>60,347</b>	<b>60,370</b>	<b>63,395</b>	<b>63,517</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 2016) 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 valuation basis adopted uses Level 2 Inputs – i.e. inputs other than quoted process that are observable for the financial asset.

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

	<b>2014/15 £'000</b>	<b>2015/16 £'000</b>
<b>Investments Brought forward</b>	<b>42,147</b>	<b>46,902</b>
Short term Investments returned in the year	(52,959)	(55,300)
Short Term Investments purchased in the year	57,697	47,023
Long Term Investments purchased in the year	0	5,125
Accrued interest at start of year	(83)	(100)
Accrued interest at end of year	100	175
<b>Investments Carried Forward</b>	<b>46,902</b>	<b>43,825</b>

### 30. 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 is exposed to a small risk in terms of its exposure to interest rate movements on its deposits with banks and building societies. An interest rate rise / fall would result in the interest credited to the Surplus or Deficit on Provision of Services increasing / decreasing.

The Council does not hold 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 (Council February 2015). The Council also had a policy throughout the year of limiting deposits with institutions to a maximum of £15M.

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 2016</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	44,595	0.0	0.0	0
Other Loans and Receivables	12,104	0.0	0.0	0
<b>Debtors</b>				
Long Term Debtors	256	0.0	0.0	0
Sundry Debtors	7,464	23.0	23.0	1,714
Housing Debtors	63	88.9	88.9	56
Other Debtors	95	15.8	15.8	15
<b>Total</b>	<b>64,577</b>			<b>1,785</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 but not impaired included in Sundry Debtors.

	<b>31st March 2015 £'000</b>	<b>31st March 2016 £'000</b>
Less than three months	1,483	1,243
Three months to one year	180	159
More than one year	272	213
<b>Total</b>	<b>1,935</b>	<b>1,615</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.

### **31. 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, non-Council members and Heads of Service have confirmed that they have not had material transactions with the Council during the financial year.

During 2015/16 £380,000 (2014/15 £360,000) in grants was paid to voluntary organisations in which nine 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.

### **32. Group Accounts**

For 2015/16 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.

### **33. 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 2015/16 the income generated from this source was £987,000 (2014/15 £489,000). The generation of this income is outside of the Council's control and is not quantifiable for future years.

### **34. 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 Communities 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.

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; this was paid in 2013/14 and shown in non-distributed costs in the Comprehensive Income and Expenditure Statement.

On 16<sup>th</sup> March 2016, the Scheme Administrator estimated that a further levy of 10% of the maximum liability (£30,400) would be applicable to the Council. This is shown in non-distributed costs in the Comprehensive Income and Expenditure Statement for the year ended 31<sup>st</sup> March 2016. No indications have been given as to whether future levies will be necessary. The Council's maximum remaining liability is £228,000.

**35. Events After the Balance Sheet Date**

There are no events after the balance sheet date which would have a material effect on the accounts for 2015/16.

On 30<sup>th</sup> April 2016, Valley Housing Ltd, a Housing Development and Management Company which is a wholly owned subsidiary of Test Valley Borough Council was incorporated. Group accounts will be prepared for the year ended 31<sup>st</sup> March 2017.

On 10<sup>th</sup> June 2016, Test Valley Borough Council completed the purchase of an investment property, 414 – 430 Bitterne Road, Southampton for £4.952M.

**36. Date Accounts Authorised for Issue**

The pre-audited Statement of Accounts was authorised for issue by the Head of Finance on 30<sup>th</sup> June 2016.

## 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 Business Rates.

INCOME AND EXPENDITURE ACCOUNT				
	2014/15		2015/16	
	£'000	£'000	£'000	£'000
<b>COUNCIL TAX</b>				
<b>Opening Balance</b>		<b>1,652</b>		<b>2,147</b>
<u>Income</u> Council Tax		63,778		65,426
<u>Expenditure</u>				
Hampshire County Council	45,837		47,039	
Hampshire Fire Authority	2,711		2,782	
Hampshire Police Authority	6,813		7,130	
Test Valley Borough Council	5,870		6,024	
Parishes	1,104		1,160	
Payments to preceptors in respect of previous surpluses	715		937	
Increase in Bad Debt Allowance	233		120	
Total Expenditure		63,283		65,192
<b>Council Tax Surplus For The Year</b>		<b>495</b>		<b>234</b>
<b>Closing Balance</b>		<b>2,147</b>		<b>2,381</b>
<b>BUSINESS RATES</b>				
<b>Opening Balance</b>		<b>(424)</b>		<b>(3,907)</b>
<u>Income</u> Business Ratepayers		46,658		49,001
<u>Expenditure</u>				
Central Government	22,864		23,827	
Hampshire County Council	4,116		4,289	
Hampshire Fire Authority	457		477	
Test Valley Borough Council	18,292		19,061	
Payments to / (from) preceptors in respect of forecast surplus / (deficit)	1,193		(3,836)	
Increase/(reduction) in provision for backdated appeals	2,111		(3,492)	
Transitional Protection Payments due to / (from) Central Govt	177		(234)	
Increase in Bad Debt Allowance	721		436	
Cost of Collection Allowance	187		189	
Amount retained in respect of renewable energy schemes	23		23	
Total Expenditure		50,141		40,740
<b>Business Rates' Surplus / (Deficit) For The Year</b>		<b>(3,483)</b>		<b>8,261</b>
<b>Closing Balance</b>		<b>(3,907)</b>		<b>4,354</b>
<b>COLLECTION FUND SUMMARY</b>				
<b>Surplus / (Deficit) for the year</b>		<b>(2,988)</b>		<b>8,495</b>
<b>Balance at the start of the year</b>		<b>1,228</b>		<b>(1,760)</b>
<b>Surplus/ (Deficit) at the end of year</b>		<b>(1,760)</b>		<b>6,735</b>

## NOTES TO THE COLLECTION FUND

### Business Rates

The starting point for the income from Business Ratepayers is the Rateable Value of each hereditament multiplied by the (national) Business Rating Multiplier for the year, which was 49.3p in 2015/16.

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 2016 was £119,660,635.

The Collection Fund balance on the 31st March 2016 in respect of Non Domestic Rates (NDR) was a surplus of £4.354M 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.

This surplus will be shared amongst the major preceptors on a fixed apportionment basis (Central government 50%, Test Valley Borough Council 40%, Hampshire County Council 9% and Hampshire Fire and Rescue Authority 1%) in 2016/17 and 2017/18.

The payments to the major preceptors in 2015/16 are shown in the following table.

<b>Non Domestic Rates Collection Fund</b>				
<b>2014/15</b>	<b>2015/16</b>			
<b>Total</b>	<b>Major Preceptors</b>	<b>Precept</b>	<b>Share of 2014/15 Forecast Deficit</b>	<b>Total</b>
<b>£'000</b>		<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
23,461	Central Government	23,827	(1,918)	21,909
4,223	Hampshire County Council	4,289	(346)	3,943
469	Hampshire Fire Authority	477	(38)	439
18,769	Test Valley Borough Council	19,061	(1,534)	17,527
<b>46,922</b>	<b>Total</b>	<b>47,654</b>	<b>(3,836)</b>	<b>43,818</b>

### Council Tax

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 45,322 for 2015/16.

The Collection Fund balance on the 31st March 2016 in respect of Council Tax was a surplus of £2.381M 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.

This surplus will be shared amongst the major preceptors in proportion to their respective precepts (Test Valley's share is 11.36%) and will be included in the Council Tax calculations for 2016/17 and 2017/18.

The payments to the major preceptors in 2015/16 are shown in the following table.

<b>Council Tax Collection Fund</b>				
<b>2014/15</b>	<b>2015/16</b>			
<b>Total</b>	<b>Major Preceptors</b>	<b>Precept</b>	<b>Share of 2014/15 Surplus</b>	<b>Total</b>
<b>£'000</b>		<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
46,364	Hampshire County Council	47,039	689	47,728
2,742	Hampshire Fire Authority	2,782	41	2,823
6,890	Hampshire Police Authority	7,130	102	7,232
5,950	Test Valley Borough Council	6,024	105	6,129
<b>61,946</b>	<b>Total</b>	<b>62,975</b>	<b>937</b>	<b>63,912</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	0	1,068	4,484	8,922	6,947	6,319	3,836	3,002	427	<b>35,005</b>
10% Discount	0	0	0	0	0	0	0	0	0	<b>0</b>
25% Discount	1	1,409	3,908	4,081	2,402	1,490	679	471	41	<b>14,482</b>
50% Discount	0	7	3	6	6	5	18	20	3	<b>68</b>
100% Exempt	0	144	143	552	262	128	93	68	5	<b>1,395</b>
50% Premium	0	9	17	13	12	7	4	3	1	<b>66</b>
Net Adjustment for Properties Charged at a Lower Band	4	25	64	(21)	(15)	(26)	15	(32)	(14)	<b>0</b>
Total Number of Properties	4	2,662	8,619	13,553	9,614	7,923	4,645	3,532	463	<b>51,015</b>
Chargeable Number of Properties	4	2,559	8,593	13,028	9,373	7,791	4,576	3,443	447	<b>49,814</b>
Equivalent Number of Properties after discounts, exemptions, premiums and disabled relief	4	2,194	7,570	11,963	8,737	7,393	4,388	3,305	433	<b>45,987</b>
Ratio to Band D	5/9	6/9	7/9	8/9	1	11/9	13/9	15/9	2	
Band D Equivalents	2	1,463	5,888	10,634	8,737	9,036	6,339	5,508	866	<b>48,473</b>
Provision for Council Tax Support										<b>(3,627)</b>
Provision for Bad Debts										<b>(292)</b>
Crown Contributions										<b>769</b>
<b>Total Band D Equivalents</b>										<b>45,322</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: <ul style="list-style-type: none"> <li>- events have not coincided with the actuarial assumptions made for the last valuation (experience gains and losses)</li> <li>- the actuarial assumptions have changed.</li> </ul>
<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>Business Rates</b>	Businesses pay Business 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. Since 1 <sup>st</sup> April 2013, the Council retains a proportion of the rates collected.
<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 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 Business Rates. It shows all precepts and statutory payments to other bodies.
<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 rental 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 by the year end.
<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 which were not paid by the year end.
<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 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>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>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>Leases</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>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.
Surplus assets	These are assets that are not being used to deliver services, but which do not meet the criteria to be classified as either investment properties or assets held for sale.
<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 2015/16**

#### **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 6 of the Accounts and Audit (England) Regulations 2015, 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 2016 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 Corporate Plan through a range of corporate and service strategies and through four areas of focus as part of the Council's commitment to the Test Valley Partnership. 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 published a Corporate Plan for 2015 / 2019 "Investing in Test Valley" which was approved by the Council on 15/04/2015. It has four main aims and an 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 and performance against its corporate priorities through an Annual Corporate Action Plan Report which is presented to Overview and Scrutiny Committee (OSCOM) and



the Cabinet. The four lead Members of OSCOM each have responsibility for undertaking panel reviews. 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 is then subsequently presented to the Committee. This has ensured the introduction of more effective and focused reviews.

- Task and Finish Panels also continue to be an option for OSCOM to perform scrutiny as and when required. In addition, there are standing panels; the Audit Panel and the Budget Panel which meet regularly throughout the year and cover scrutiny of all the financial activities of the Council. The standing panels report to OSCOM on a regular basis and bring any issues of concern to the attention of the Committee.
- A single strategic partnership for the Borough is in place called the Test Valley Partnership. It brings together the key partner agencies from across the public and voluntary and community sector. It meets twice a year and provides a place in which the key strategic issues facing the borough can be discussed, joint work developed and statutory duties met.
- 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. 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. The Council published information that demonstrates compliance with the Equality Duty as defined by the Equality Act 2010 on its website in January 2016 (<http://www.testvalley.gov.uk/assets/files/10013/Equality-information-2016.pdf>).
- 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. The Care Act 2014 came into force in April 2015. This now places adult safeguarding on a statutory footing and requires district councils to pay due regard to our vulnerable adults in accordance with this legislation. The Council has adopted a Safeguarding Children and Vulnerable Adults policy to ensure compliance with these duties. On a regular basis the Hampshire Safeguarding Children Board requires all statutory partners to complete a Section 11 audit as a self assessment tool to assess their position in respect of its safeguarding duties. The last audit in 2014 identified that Test Valley Borough Council is compliant with Section 11 of the Children Act.
- 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 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 encourages 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 has been approved to address the requirements of the Bribery Act 2010.
- The Democratic Services Manager 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. During 2014, a Members' Group, as part of the Local Government Association's "Keep it Real" programme worked with officers to design the induction programme for 2015/16. This includes a brand new element that has provided training and support to councillors in fulfilling their community role. 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 purposes 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 website has been designed 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 Communications Strategy, which is currently under review, which sets out the Council's approach to communicating with its residents, businesses and other key 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 2015/16, 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 External Auditor (Ernst and Young LLP) who independently examines the Council's accounts and financial systems and who presents an [Annual Governance Report](#) to

Members, the latest available covering the financial year 2014/15. 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.

**DECLARATION**

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.

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

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
Potential conflicts of interest could arise where Members of the Council act as Trustees of community groups receiving grants from the Council.	Review inclusion of Cabinet Members on outside bodies. Raise awareness in Member training programme.	30/09/16	Bill Lynds, Head of Legal & Democratic Services
The extent of involvement by Members in the formulation of planning policy and reviewing its impact and effectiveness.	Develop the framework for member involvement in the formulation of planning policy as recommended by Overview and Scrutiny Committee and as agreed by Cabinet in April 2015.	30/06/16	Andrew Ferrier/ Graham Smith Head of Planning Policy & Transport Services
Contract Standing Orders have not been updated to take account of the new Public Contract Regulations 2015.	Update Contract Standing Orders and consider options including an e tendering system.	30/11/16	Bill Lynds, Head of Legal & Democratic Services
	Training to be given to officers procuring goods and services.	31/12/16	Will Fullbrook, Head of Finance