

Notice of Meeting

General Purposes Committee

Date: Monday, 30 July 2018

Time: 16:00

Venue: The Annexe, Crosfield Hall, Broadwater Road, Romsey, Hampshire,
SO51 8GL

For further information or enquiries please contact:

Caroline Lovelock - **01264 368014**
email clovelock@testvalley.gov.uk

Legal and Democratic Service

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

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

WARD

Councillor K Hamilton	Vice Chairman	Harroway
Councillor N Adams-King		Blackwater
Councillor G Bailey		Blackwater
Councillor J Cockaday		St Mary's
Councillor A Dowden		Valley Park
Councillor M Flood		Anna
Councillor P Giddings		Bourne Valley
Councillor P Hurst		Tadburn
Councillor I Jeffrey		Dun Valley
Councillor P North		Alamein
VACANCY		

General Purposes Committee

Monday, 30 July 2018

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 20 June 2018
- 6 Apprentice Pay Award 2018/19 4 - 10
To approve the Apprentice Pay Award for 2018/19.
- 7 Statement of Accounts 2017/18 11 - 146
To present Ernst & Young's Annual Audit Results Report, and to
approve the 2017/18 Statement of Accounts.

degree apprenticeship in digital IT solutions) as well as new recruits. For TVBC, the target equates to 12 new apprentice starts per year. The Council has regard to the target and balances the costs (both financial and in terms of management time) involved in employing apprentices. It balances the benefits of having apprentices against the need to meet the target.

- 1.5 The Apprentice Levy was introduced in April 2017 at 0.5% of the TVBC pay bill. For 2017/18, the amount paid to HMRC was £54,770. The levy is returned to the Council in the form of an online account that can be used to fund apprenticeships training. The levy fund is topped up by Government funds giving back £1.10 for apprenticeship training for every £1 contributed via the levy. The levy funds cannot be used to fund apprentices' salary.
- 1.6 Alongside these changes, new Apprenticeship standards have been introduced. These have been developed with employers focusing on the skills, knowledge and behaviours needed to be competent in their role. With the new standard, the length of apprenticeship training and therefore the employment costs of having apprentices has increased. The cost of providing the training element of the apprenticeship (met through levy funds) has also increased significantly.
- 1.7 Considering the recruitment and retention issues, work was undertaken with Heads of Services, apprentices (both current and past) and managers to explore the reasons behind this and what further could be done. An action plan has been put in place to make the recommended improvements. Feedback received included that pay was a barrier to attracting candidates. This was in terms of:-
 - the Council's offer compared to taking a job in a supermarket or a general role with another employer;
 - the Council's offer compared to other apprentice positions;
 - for apprentices working alongside colleagues in permanent roles the possible morale and retention issues caused by the disparity between the pay differential.
- 1.8 This report provides background to the Council apprentice pay and recommends an increase in the pay to address the issue.

2 Background to Apprentice Pay

- 2.1 Apprentice pay is treated separately from the main Council pay negotiations. The Council is a member of the Hampshire Apprentice Partnership (HAP) which has had a standard apprentice pay rate across all partners. All partners paid the standard rate for low level apprenticeships (Levels 2 or 3) in their first year of employment.
- 2.2 In their second year of employment, apprentices over 18 receive the National Minimum Wage (NMW) for their age (£5.90 - £7.83 per hour). Under 18s continue to receive the HAP rate as this is higher than the NMW for their age.

- 2.3 The current HAP rate of pay for apprentices in their first year of employment is £4.73 per hour. This compares to the National Minimum Wage (NMW) for apprentices at £3.70 per hour.
- 2.4 The HAP partners have recently indicated that these pay arrangements are proving restrictive and impacting on each partners ability to flex apprentice pay to reflect the market forces in their local areas. The HAP partners are therefore moving to a position of setting individual pay rate with effect from 1 April 2018.
- 2.5 This report considers the rate of apprentice pay at lower levels (Levels 2/3). Further work is being undertaken to make recommendations at a later GPC for higher level apprentice pay (for example degree apprenticeships).

3 Pay Awards

- 3.1 TVBC is not a party to the national pay bargaining arrangements for local government; its pay framework is based on locally agreed pay arrangements for all employees.
- 3.2 Recent pay awards to TVBC staff (other than apprentices) have been a 2.5% increase in each of the last 3 years.
- 3.3 The Council joined HAP on the 1 September 2017. In 2017/18 this resulted in apprentices receiving a 2.5% in line with other Council employees on 1 April 2017 to £4.59 per hour and a further increase when we joined HAP to £4.68 per hour on 1 September 2017. In 2017/18 HAP apprentice pay increased by 1% to £4.73 per hour.

4 Comparison to National Minimum Wage (NMW)

- 4.1 TVBC Apprentice pay compared to the NMW.

	Apprentice rate in Y1		Apprentice Rate in Y2			
	TVBC Apprentice Rate in Y1	NMW Apprentice Y1	TVBC & NMW 25 and over	TVBC & NMW 21 to 24	TVBC & NMW 18 to 20	TVBC & NMW Under 18
Hourly rate	£4.73	£3.70	£7.83	£7.38	£5.90	TVBC £4.73 NMW £4.20
Annual Salary	£9,125	£7,138	£15,106	£14,238	£11,382	£8,103

- 4.2 National Minimum Wage jobs may not include the element of gaining a qualification, however would pay more than the TVBC apprentice rate unless the individual was under 18. The majority of our recent apprentices have been 18 years or older when commencing their apprenticeship with the Council.

5 Benchmarking of Apprentice pay

- 5.1 Benchmarking of apprentice vacancies in the Andover and Romsey area has taken place. Reviewing vacancies advertised on Find an Apprenticeship and the Indeed websites during May 2018, many were advertised at the national minimum wage for apprentices at £3.70 per hour. These posts tended to be in traditionally lower paid entry positions, such as nurseries and retail.
- 5.2 There are some exceptions, for example IT posts where several employers are paying enhanced rates of £14k - £17k per annum. There was one customer service post at £13.5k per annum and one business administrator at £10.5k per annum.
- 5.3 In terms of other large apprentice employers in Andover:
- Be Wisser Insurance no longer have salary data on their website but previously were paying £12k per annum increasing to £18k per annum after 2 years subject to completion of qualifications.
 - Lloyds Banking have recently advertised administration and customer services apprenticeships paying between £15,930 - £17,700 per annum
 - Simply Health – are not currently advertising in Andover however, recently advertised for a Customer Service apprentice post in Winchester at £16k per annum.
- 5.4 For other local authorities within HAP who are making changes to their apprentice rate, Basingstoke and Deane Borough Council are seeking agreement to increase their rate to £6.08 per hour. Winchester City Council has moved to a model where apprentices will fill a permanent vacancy at their scale 3 and will receive 70% of the salary (£6.41 per hour) whilst undertaking the apprenticeship.
- 5.5 Considering other non-apprentice posts, local supermarkets are paying £7.70 - £8.50 per hour or potential applicants can find positions paying national minimum wage which for most of our potential applicants is higher than our apprentice starting salary.

6 Corporate Objectives and Priorities

- 6.1 The issues of being a high performing council, motivating and valuing staff and competitiveness in the market place relate directly to the Council's Vision *to be an organisation of excellence* committed to improving the quality of life of all the people of Test Valley. Inevitably, they must be balanced against the Council's duties to be prudent in its use of public funds.
- 6.2 Apprenticeships support the development of skills for the local economy, both for those apprentices who progress their careers in the public sector and for those who go on to progress careers in the private sector. Developing skills for the local economy is a key objective under the Corporate Objective of investing in a great place to work and do business.

7 Consultations/Communications

- 7.1 The matter has been the subject of consultation with Heads of Service and Portfolio Holders. Consultation has also taken place with the unions. They support a recommendation being made to this Committee to:

- An increase to £6 per hour during year 1 of an apprenticeship
- An increase to £6.50 or the NMW for their age (higher of the two) during year 2.

8 Information Relating to the Increase

8.1 There are 3 current apprentices who would benefit from any increase. Additionally, the Council has 9 apprentice vacancies and increasing the rate would increase the attractiveness of the Council's offer in recruiting to these vacancies.

9 Options and Option Appraisal

9.1 The first option relates to whether or not it is appropriate in the present circumstances to make a pay award for apprentices. The Hampshire Apprentice Partnership have agreed to local pay arrangements, so Members could decide to maintain the current apprenticeship rate of £4.73 for the coming year.

9.2 Given the difficulties in recruiting apprentices, coupled with the rate of pay being identified as one of the contributing factors and that all other staff will receive a 2.5% increase, this option is not recommended.

9.3 In the event that an award is made, the second option relates to the size and nature of any increase which is a matter for Members' judgement.

9.4 The options to increase the apprentice rate are set out below. In arriving at the suggested rates, consideration has been given to the National Minimum Wage, taking account of the feedback that the current rate of pay is a barrier to recruitment and retention and research into other pay in the market.

Hourly Rate	Annual Salary	Cost including NI / Pension contributions*	Additional Cost	Comment
£4.73	£9,125	£10,573		Current rate
£4.85	£9,331	£10,871	£298	2.5% increase – TVBC increase for other employees 2018/19
£4.92	£9,466	£11,044	£471	4% increase (2.5% 2018/19 increase agreed for all other staff plus 1.5% difference in HAP and TVBC pay award from 2017/18)
£6.00 (Year 1)	£11,544	£13,724	£3,151	Proposed rate recommended taking account of factors outlined in section 9.5
£6.50 (Year 2)	£12,506	£14,964	£4,391	

*Employer NI is £0 if apprentice is under 25

9.5 There are a number of other factors relevant in considering an increase which merit consideration:

- The Council wishes to remain competitive in the market for recruiting apprentices. This is in comparison to other large employers in the area as well as other local district Councils in terms of apprenticeships. The Council is also in competition with other local employers in terms of entry level vacancies, such as in retail.
- Attracting applicants and making successful appointments supports the Government policy to increase apprenticeships in the public sector. It also provides local residents with work experience and qualifications they can use in the wider local economy if the Council does not have suitable longer term vacancies.
- Apprentices are the lowest paid employees within the Council and under the HAP pay arrangements they did not received the same level of increase as other TVBC employees in 2017/18.
- Factors put forward from Unison as part of the overall TVBC pay claim have been previously considered by members. These include:-
 - Increases in the cost of living
 - Appropriate reward is needed to sustain morale
 - Potential to increase the likelihood of recruitment and retention problems
 - Increased vacancy rates across the economy make a competitive wage rate ever more crucial”
- Year 2 apprentices must be paid the National Minimum Wage for their age (rather than the apprentice rate). This means currently, for those age 18-25 their salary increases to between £5.90 and £7.83 per hour.

9.6 Taking the above factors into consideration a recommendation is being proposed to increase Apprentice Pay for Level 2 and Level 3 apprentices to £6.00 per hour in year 1 and a minimum of £6.50 or the NMW for their age whichever is the higher in year 2.

10 Resource Implications

10.1 There are 3 current apprentice employees affected by any increase agreed. The Council has 9 vacancies that it is currently out to recruiting on, to start in September. Assuming all posts are filled, the additional cost to these posts would be £23,500.

10.2 The total additional costs can be accommodated within the Council’s approved budget.

11 Risk Management

11.1 A risk assessment has been completed in accordance with the Council’s Risk management process and the existing risk controls in place mean that no significant risks (Red or Amber) have been identified.

12 Legal Implications

12.1 None

13 Equality Issues

13.1 An EQIA screening has been completed in accordance with the Council's EQIA methodology and no potential for unlawful discrimination and/or low level or minor negative impact have been identified, therefore a full EQIA has not been carried out.

14 Conclusion

14.1 The proposals contained in this report seek to balance prudent financial decision making with recognition of the value of recruiting and retaining good apprentices within the current market place.

<u>Background Papers (Local Government Act 1972 Section 100D)</u>			
None			
<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:	0		
Author:	Alex Rowland	Ext:	8251
	Penny Billingham		8252
File Ref:	N/A		
Report to:	General Purposes	Date:	30 July 2018

ITEM 7

Statement of Accounts 2017/18

Report of the Head of Finance

Recommended:

1. **Ernst & Young’s Annual Audit Results Report (as shown in annex 1 to the report):**
 - 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 (as shown in annex 2 to the report) be approved.**
3. **That the audited Annual Statement of Accounts for the financial year 2017/18 (as shown in annex 3 to the report) 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 have 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 2018 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 is expected to be given in respect of both the Annual Statement of Accounts and the Council’s value for money arrangements. This means that the auditors have found no material areas of concern as part of their audit.

3 2017/18 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 31 May 2018. 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 a small number of presentational amendments to the accounts since the Head of Finance approved them for audit. These are all fairly minor and relate to disclosures in the notes to the accounts. None of these changes have affected the “bottom line” position of the Council as reported to the Cabinet in May.
- 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 26 April 2018 (Minute 329 refers).

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 2017/18.
- 4.2 It is expected that Ernst & Young will be issuing 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 31 July each year.

<u>Background Papers (Local Government Act 1972 Section 100D)</u>			
None			
<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:	N/A
(Portfolio: Finance) Councillor Giddings			
Officer:	Will Fullbrook	Ext:	8201
Report to:	General Purposes Committee	Date:	30 July 2018

Test Valley Borough
Council
Audit results report
Year ended 31 March 2018

18 July 2018

Audit Panel and General Purposes Committee

18 July 2018

Dear Members

We are pleased to attach our audit results report for the forthcoming meetings of the Audit Panel and General Purposes Committee (those charged with governance). This report summarises our preliminary audit conclusion in relation to the audit of Test Valley Borough Council for 2017/18. We will issue our final report at the General Purposes Committee meeting scheduled for 30 July 2018.

We have substantially completed our audit of Test Valley Borough Council for the year ended 31 March 2018. Subject to concluding the outstanding matters listed in our report, we confirm that we expect to issue an unqualified audit opinion on the financial statements in the form at Section 4, before the statutory deadline of 31 July 2018. We also have no matters to report on your arrangements to secure economy, efficiency and effectiveness in your use of resources.

This report is intended solely for the use of the Audit Panel and General Purposes Committee, other members of the Authority, and senior management. It should not be used for any other purpose or given to any other party without obtaining our written consent.

We would like to thank your staff for their help during the engagement.

We welcome the opportunity to discuss the contents of this report with you at the Audit Panel on 25 July 2018 and at the General Purposes Committee on 30 July 2018.

Yours faithfully

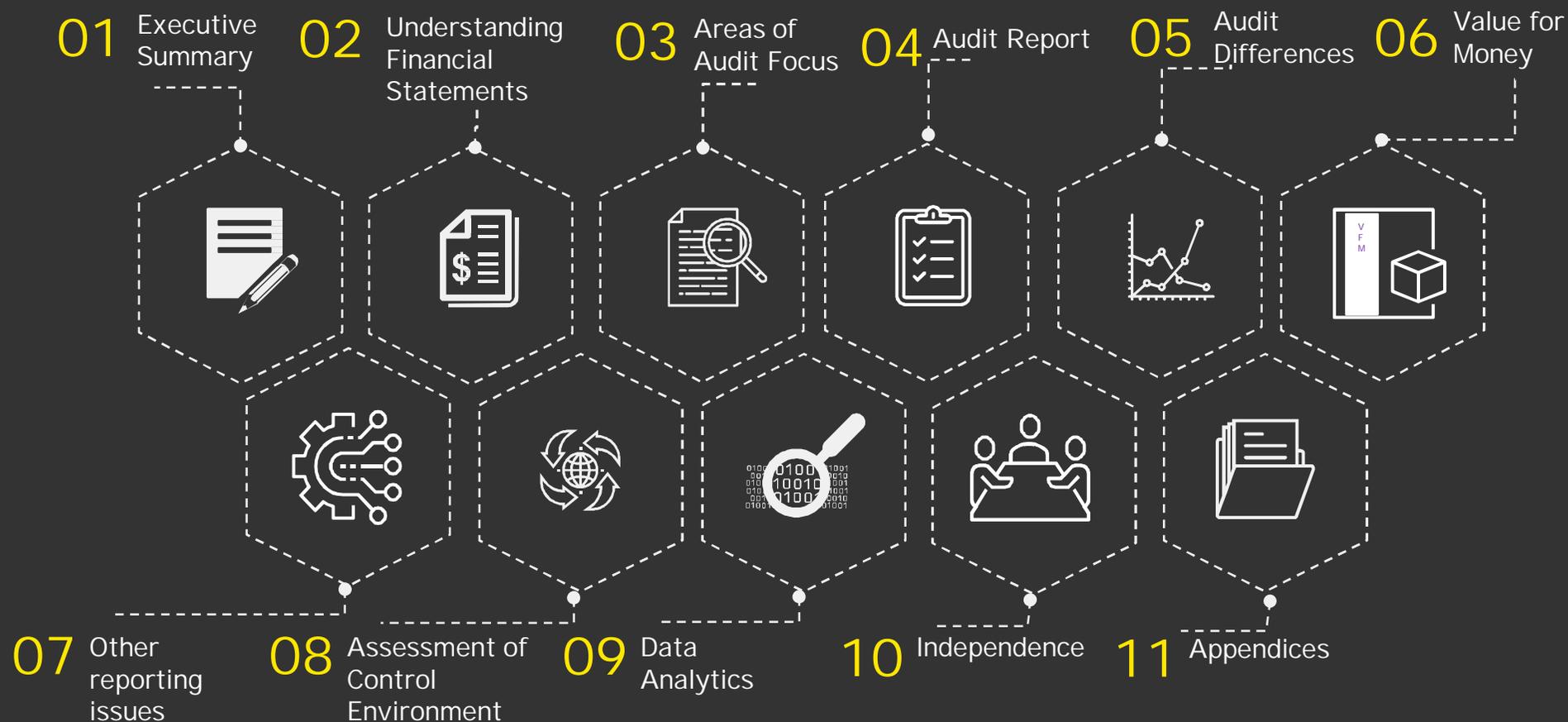
Maria Grindley

Associate Partner

For and on behalf of Ernst & Young LLP

Encl

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In April 2015 Public Sector Audit Appointments Ltd (PSAA) issued "Statement of responsibilities of auditors and audited bodies". It is available from the via the PSAA website (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 (updated February 2017)" issued by the 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 in legislation, and covers matters of practice and procedure which are of a recurring nature.

This report is made solely to those charged with governance and management of Test Valley Borough Council in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to those charged with governance and management of Test Valley Borough Council those matters we are required to state to them in this report and for no other purpose. To the fullest extent permitted by law we do not accept or assume responsibility to anyone other than those charged with governance and management of Test Valley Borough Council for this report or for the opinions we have formed. It should not be provided to any third-party without our prior written consent.



01 Executive Summary

 Executive Summary**Scope update**

In our audit planning report presented at the Audit Panel meeting on 1 March 2018, we provided you with an overview of our audit scope and approach for the audit of the financial statements. We carried out our audit in accordance with this plan, with the following exception:

- Change in materiality: In our Audit Planning Report, we communicated that our audit procedures would be performed using a materiality of £1.4M. We updated our planning materiality assessment using the draft year end results and have also reconsidered our risk assessment. Based on our materiality measure of gross expenditure on provision of services, we have updated our overall materiality assessment to £1.5M. This results in updated performance materiality, at 75% of overall materiality, of £1.1M, and an updated threshold for reporting misstatements of £75,000.

Status of the audit

We have substantially completed our audit of Test Valley Borough Council's financial statements for the year ended 31 March 2018 and have performed the procedures outlined in our Audit Planning Report. Subject to satisfactory completion of the following outstanding items we expect to issue an unqualified opinion on the Authority's financial statements in the form which appears at Section 4. However until work is complete, further amendments may arise:

1. Provisions and contingencies testing.
2. Pensions and reserves testing.
3. Debtors testing.
4. Journals testing.
5. Completion of work on PPE.
6. Review of revised draft account; review of the revised account and test back to the ledgers; and overall analytical review of the revised account.
7. Audit Manager and Associate Partner completion review of outstanding areas and working papers.
8. Completion of subsequent events review.
9. Receipt of the signed management representation letter.

Audit differences

At the time of writing this report, there are no adjusted audit differences arising from our audit.

There is one unadjusted audit difference in relation to the value of pension fund assets of £512,629. This is not material and relates to the fact that there was an estimate for the asset value of the fund provided and used appropriately in the financial statements. Subsequently, the asset value at 31 March 2018 is known and the difference for the fund is an increase of approximately £31m and the unadjusted audit difference relates to the Council's share of this.

Executive Summary

Areas of audit focus

Our Audit Planning Report identified key areas of focus for our audit of Test Valley Borough Council's financial statements. This report sets out our observations and conclusions, including our views on areas which might be conservative, and where there is potential risk and exposure. We summarise our consideration of these matters, and any others identified, in the "Key Audit Issues" section of this report. They comprise:

- Ø Risk of fraud in revenue and expenditure recognition;
- Ø Misstatements due to fraud or error – management override;
- Ø Financial Statements presentation – Expenditure and Funding Analysis and Comprehensive Income and Expenditure Statement;
- Ø Financial accounting for the new leisure centre and temporary pool;
- Ø Valuation of Land and Buildings;
- Ø Pension Liability Valuation; and
- Ø Earlier deadline for production of accounts.

We ask you to review these and any other matters in this report to ensure:

- Ø There are no other considerations or matters that could have an impact on these issues;
- Ø You agree with the resolution of the issue; and
- Ø There are no other significant issues to be considered.

Control observations

We have adopted a fully substantive approach, so have not tested the operation of controls.

Value for money

We have considered your arrangements to take informed decisions; deploy resources in a sustainable manner; and work with partners and other third parties.

We have no matters to report about your arrangements to secure economy efficiency and effectiveness in your use of resources.

 Executive Summary

Other reporting issues

We have reviewed the information presented in the Annual Governance Statement for consistency with our knowledge of the Authority. We have no matters to report as a result of this work.

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, is specified by the National Audit Office. There are no issues arising from this work.

We have no other matters to report.

Independence

Please refer to Section 10 for our update on Independence.

02

Understanding Financial Statements



Understanding Financial Statements

Understanding Financial Statements

The Authority's Net Assets at 31 March 2018 were valued at £157,284,000, The main balances within these net assets were:

Property, Plant and Equipment: £67,057,000

Investment Properties: £106,836,000

Long Term Debtors and Investments: £18,105,000

NET Current Assets: £23,666,000

Pension Liability: £58,520,000.

We note that net operating expenditure increased during the year by £8,014,000 from £14,437,000 in 2016/17 to £22,451,000 in 2017/18.

Key drivers behind this increase included:

- Ø Loss on disposal of Property, Plant and Equipment: £4,470,000 (compared to profit on disposal in 2016/17 of £878,000); and
- Ø Increased Community and Leisure Costs: £2,870,000.



03 Areas of Audit Focus

Areas of Audit Focus

Significant risk

Risk of fraud in revenue and expenditure recognition

What is the risk?

Under ISA 240 there is a presumed risk that revenue may be misstated due to improper revenue recognition. In the public sector, this requirement is modified by Practice Note 10 issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition.

Which areas of judgements are we focused on?

We focused on:

- areas of revenue and expenditure recognition which involve significant estimates, which have a higher risk of management bias:
- cut-off procedures, to ensure income and expenditure is recorded in the correct year:
- forecast projection comparison with year-end actual

What did we do?

We:

- Reviewed and tested revenue and expenditure recognition policies;
- Reviewed and discussed with management any accounting estimates on revenue or expenditure recognition for evidence of bias;
- Developed a testing strategy to test material revenue and expenditure streams;
- Reviewed and tested revenue cut-off at the period end date;
- Reviewed in-year financial projections and compared them to year-end position; and
- Reviewed capital expenditure on property, plant and equipment to ensure it met the relevant accounting requirements to be capitalised.

What are our conclusions?

Our testing has not identified any material misstatements from revenue and expenditure recognition to date – we will update you once our work is complete.

Overall our audit work has not identified any material issues or unusual transactions to date to indicate any misreporting of the Council's financial position.



Areas of Audit Focus

Significant risk

Misstatements due to fraud or error – management override

What is the risk?

The financial statements as a whole are not free of material misstatements whether caused by fraud or error.

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. We identify and respond to this fraud risk on every audit engagement.

Which areas of judgements are we focused on?

We focused on those balances that could be susceptible to management override of controls, including debtors, creditors, provisions, property, plant and equipment and investment property.

What did we do?

We:

- Identified fraud risks during the planning stages;
- Asked management about risks of fraud and the controls put in place to address those risks;
- Understood the oversight given by those charged with governance of management's processes over fraud;
- Considered the effectiveness of management's controls designed to address the risk of fraud;
- Determined an appropriate strategy to address those identified risks of fraud;
- Performed mandatory procedures regardless of specifically identified fraud risks, including testing of journal entries and other adjustments in the preparation of the financial statements;
- Confirmed there had been no changes in accounting policies; and
- Reviewed the accounting treatment for the new capital projects (the new leisure centre).

What are our conclusions?

Our work is being completed but so far we have not identified any material weaknesses in controls or evidence of material management override.

We have not identified any instances of inappropriate judgements being applied.

We did not identify any other transactions during our audit which appeared unusual or outside the Authority's normal course of business



Other areas of audit focus

We have identified other areas of the audit, that have not been classified as significant risks, but are still important when considering the risks of material misstatement to the financial statements and disclosures and therefore may be key audit matters we will include in our audit report.

What was the area of focus?

Financial Statements presentation – Expenditure and Funding Analysis and Comprehensive Income and Expenditure Statement

Test Valley Borough Council's internal reporting structure changed during 2017/18, with the Planning, Policy and Transport line being reclassified to Estates and Economic Development and Corporate and Support. Reclassifications on the Expenditure and Funding Analysis and of the Comprehensive Income and Expenditure Statement were needed to reflect the new reporting structure, both for 2017/18 and for 2016/17 amounts.

Financial accounting for the new leisure centre and temporary pool
The Council is part way through a project to construct a new Leisure Centre. A temporary swimming pool has been installed for the construction period. At the time of writing this report, it was expected that the year end statement of accounts could include a partial disposal of the old building; a remaining part of the old building still in use; assets under construction to reflect the cost of work so far on the new building; and rental payments of some £800,000 on the temporary pool. Formal valuation of any part of the old or new building in use at year end is not expected to be available until our final audit visit, although a proposed map of accounting treatments is expected to be available earlier.

What did we do?

We:

- Reviewed proposed changes to the format of accounts during the interim audit visit;
- Confirmed that the prior year reclassification is correctly disclosed; and
- Tested correctness extraction from the ledger and consistency of that extraction with the internal reporting structure for all other items on the Income Statement and Expenditure and Funding Analysis.

Findings: We did not identify any matters to report to you.

We:

- Reviewed proposed accounting treatment, including proposed basis of recognition and valuation, in detail during our interim audit;
- Tested the correctness of allocations between capital and revenue spending (particularly for the temporary pool) in detail during our interim audit; and
- Considered work performed by the Council's valuers, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work during our final audit.

Findings:

At 31 March 2017, the Andover Leisure Centre's land and buildings had been valued at £8,335,092. We noted that disposals of £8,172,092 were written-off as the old building was demolished and that the remaining elements were revalued to £163,000 at 31 March 2018. This was one of the assets that our real estate valuers tested the year end valuation for in detail.

Our specialists challenged the assumptions underpinning land values used in the year end valuation and the way that a restrictive covenant had been reflected in the land valuation. Our specialist worked with the in-house valuers to confirm that this issue was not replicated across the wider population of land and buildings revalued in year and this was confirmed not to be the case.

Other areas of audit focus

We have identified other areas of the audit, that have not been classified as significant risks, but are still important when considering the risks of material misstatement to the financial statements and disclosures and therefore may be key audit matters we will include in our audit report.

What was the area of focus?

Valuation of Land and Buildings

The fair value of Property, Plant and Equipment (PPE) and Investment Properties (IP) represent significant balances in the Council's accounts. At 31 March 2018, they totalled £67,057,000 (31 March 2017: £65,091,000) and £106,836,000 (31 March 2017: £97,062,000) respectively. Movements during 2017/18 included valuation changes, impairment reviews and depreciation charges as well as additions and disposals. Management is required to make material judgemental inputs and apply estimation techniques to calculate the year-end balances recorded in the balance sheet.

What did we do?

We obtained a schedule of PPE and IP assets revalued during the year and agreed revaluations recorded in the ledger and accounts to valuation reports and to detailed workings, methodology, data and assumptions supporting the reports. For PPE revaluations, we selected four in-year valuations and referred them to in-house EY real estate specialists for review.

Findings:

EY real estate specialists challenged, for the sample selected, methodologies around buildings costs data, treatment of professional fees, asset life and land value assumptions, and treatment of voids and purchaser costs. Whilst there were issues identified that for the individual assets meant their valuation was outside acceptable ranges, the overall net impact of those differences on the combined value of our sample was not material. Our real estate colleagues have conducted follow-up testing with the in-house valuations team to confirm that the methodology issues were not replicated across the remaining population of assets revalued during the year.

This final piece of work is currently underway and we will report our findings at the meeting with you. At this stage, subject to completion of this work, we were satisfied that PPE Land and Buildings values in the draft accounts are materially correct.

Other areas of audit focus

We have identified other areas of the audit, that have not been classified as significant risks, but are still important when considering the risks of material misstatement to the financial statements and disclosures and therefore may be key audit matters we will include in our audit report.

What was the area of focus?	What did we do?
<p>Pension Liability Valuation</p> <p>The Local Authority Accounting Code of Practice and IAS19 require the Council to make extensive disclosures within its financial statements regarding its membership of the Local Government Pension Scheme administered by Hampshire County Council.</p> <p>The Council's pension fund deficit is a material estimated balance and the Code requires that this liability be disclosed on the Council's balance sheet. At 31 March 2018 this totalled £58,520,000. The information disclosed is based on the IAS 19 report issued to the Council by the actuary to the County Council.</p> <p>Accounting for this scheme involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf. ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.</p>	<p>We:</p> <ul style="list-style-type: none"> • Liaised with the auditors of Hampshire Pension Fund, to obtain assurances over the information supplied to the actuary in relation to Test Valley Borough Council; • Assessed the work of the Pension Fund actuary (Aon Hewitt) including the assumptions they have used by relying on the work of PWC - Consulting Actuaries commissioned by Public Sector Auditor Appointments for all Local Government sector auditors, and considering any relevant reviews by the EY actuarial team; and • Reviewed and tested the accounting entries and disclosures made within the Council's financial statements in relation to IAS19. <p>Findings:</p> <p>The estimate used by the actuary to calculate Test Valley's share of Hampshire Pension Fund's assets does not fully reconcile to the value of those assets. This is not material and relates to the fact that there was an estimate for the asset value of the fund provided and used appropriately in the financial statements. Subsequently, the asset value at 31 March 2018 is known and the difference for the fund is an increase of approximately £31m. This is not an error but a difference caused by timing of the estimate made by the actuary of the fund and the actual values subsequently being available. Test Valley's share of this difference has been estimated to be £512,629 (the estimation being based on Test Valley's share of the underlying total asset base). This has been noted as an unadjusted audit difference in this report.</p> <p>At the time of writing this report, remaining pension fund testing was still ongoing but further issues were not expected. We will update the Audit Panel and The General Purposes Committee with the results of our work at their meetings on 25 and 30 July.</p>

Other areas of audit focus

We have identified other areas of the audit, that have not been classified as significant risks, but are still important when considering the risks of material misstatement to the financial statements and disclosures and therefore may be key audit matters we will include in our audit report.

What was the area of focus?

Earlier deadline for production of the financial statements

The Accounts and Audit Regulations 2015 introduced a significant change in statutory deadlines from the 2017/18 financial year. The timetable for the preparation and approval of accounts was brought forward with draft accounts needing to be prepared by 31 May and the publication of the accounts by 31 July.

These changes provided risks for both the preparers and the auditors of the financial statements.

The Council had less time to prepare the financial statements and supporting working papers. Risks to the Council included slippage in delivering data for analytics work in format and to time required, late working papers and internal quality assurance arrangements.

As your auditor, we had a more significant peak in our audit work and a shorter period to complete the audit. Risks for auditors related to delivery of all audits within same compressed timetable. Slippage at one client could potentially have put delivery of others at risk.

To mitigate this risk we required:

- good quality draft financial statements and supporting working papers by the agreed deadline;
- appropriate Council staff to be available throughout the agreed audit period; and
- complete and prompt responses to audit questions.

What did we do?

We have:

- Worked with the Council to engage early to facilitate early substantive testing where appropriate;
- Completed all testing on changes to the Comprehensive Income and Expenditure Statement and Expenditure and Funding Analysis during the interim audit;
- Completed initial risk assessments on PPE and Investment Property valuations during the interim audit and, for PPE, engaged EY real estate specialists before the start of the final audit visit so that valuation issues outlined at page 16 could be identified early in the final audit process;
- Worked with the Council to implement EY Client Portal, this:
 - Streamlined our audit requests through a reduction of emails and improved means of communication;
 - Provided on-demand visibility into the status of audit requests and the overall audit status;
 - Reduced risk of duplicate requests; and
 - Provided better security of sensitive data; and
- Agreed the supporting working papers that we required to complete our audit.

Findings: We are on track to complete our audit by the deadline subject to satisfactory completion of the outstanding work underway at the time of this report being drafted for Committee papers.



04 Audit Report



Audit Report

Draft audit report

Our opinion on the financial statements

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

Opinion

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

- Comprehensive Income and Expenditure Statement;
- Movement in Reserves Statement;
- Balance Sheet;
- Cash Flow Statement;
- Related note 1 to 38;
- The Expenditure and Funding Analysis, and
- 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 2017/18.

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 2018 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.

Basis for opinion

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

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

Conclusions relating to going concern

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

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

Other information

The other information comprises the information included in the Statement of Accounts set out on pages 1 to 7, other than the financial statements and our auditor's report thereon. The Head of Finance is responsible for the other information.



Audit Report

Draft audit report

Our opinion on the financial statements

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

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

We have nothing to report in this regard.

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

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

In our opinion, based on the work undertaken in the course of the audit, having regard to the guidance issued by the Comptroller and Auditor General (C&AG) in November 2017, 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 2018.

Matters on which we report by exception

We report to you if:

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

We have nothing to report in these respects.

Responsibility of the Head of Finance

As explained more fully in the Statement of Responsibilities set out on page 10, 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 2017/18, and for being satisfied that they give a true and fair view.



Audit Report

Draft audit report

Our opinion on the financial statements

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General (C&AG) in November 2017, as to whether 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 Comptroller and Auditor General 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 2018.

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

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

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

 Audit Report

Draft audit report

Our opinion on the financial statements

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.

Use of our report

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 Test Valley Borough Council and Test Valley Borough Council's members as a body, for our audit work, for this report, or for the opinions we have formed.

Maria Grindley (Key Audit Partner)
Ernst & Young LLP (Local Auditor)
Reading
30 July 2018

The maintenance and integrity of the Test Valley Borough Council web site is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site.

Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.



05

Audit Differences



Audit Differences

In the normal course of any audit, we identify misstatements between amounts we believe should be recorded in the financial statements and the disclosures and amounts actually recorded. These differences are classified as “known” or “judgemental”. Known differences represent items that can be accurately quantified and relate to a definite set of facts or circumstances. Judgemental differences generally involve estimation and relate to facts or circumstances that are uncertain or open to interpretation.

Summary of adjusted differences

We highlight misstatements greater than £1.1M which have been corrected by management that were identified during the course of our audit.

There were no adjusted differences above this level identified from our work.

We note that as a result of our procedures, some miscellaneous changes to disclosure have been proposed and will be reviewed in the revised account when it is received.

These include removal of a prior year adjustment to long term loans of £510,000; addition of going concern assumption disclosure; and IFRS15 issued but not yet adopted disclosure.

Summary of unadjusted differences

We identified one unadjusted difference relating to the Council’s share of the difference between the actuary’s estimate of the Pension Fund asset value and the actual Fund value at 31 March 2018. We estimated this to be £512,629.



06

Value for Money Risks



Value for Money

Background

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

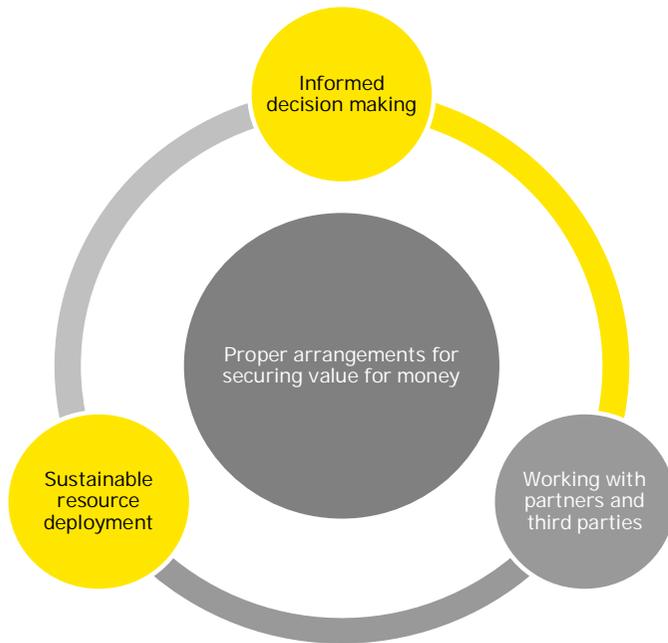
For 2017/18 this is based on the overall evaluation criterion:

"In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people"

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.

In considering your proper arrangements, we will draw on the requirements of the CIPFA/SOLACE framework for local government to ensure that our assessment is made against a framework that you are already required to have in place and to report on through documents such as your annual governance statement.



Overall conclusion

We did not identify any significant risks around these criteria.

We therefore expect having no matters to report about your arrangements to secure economy, efficiency and effectiveness in your use of resources.

We note that since 2016/17, forecast revenue benefits under the new leisure contract have been flagged for monitoring. A paper on progress under this contract was presented to Cabinet on 16 May 2018 and reported a 3% variance against costs of the contract. The variance had been clearly analysed for managing. Whilst we do not consider this to be significant for 2017/18, we will continue to monitor performance under the contract in 2018/19.

Value for Money

As part of our assessment of your proper arrangements, we considered the Council's financial resilience over the medium term and the impact on the level of General Fund Reserve balances at the 31 March 2018 and at the 31 March 2021.

In our assessment we considered:

- The Council's level of savings requirement to balance the General Fund budget in each of the next three years;
- The Council's planned use of reserves to support the General Fund budget in each of the next three years;
- the Council's history of delivering savings plans and therefore the potential to call upon reserves to make up a shortfall in future savings plan delivery;
- the Council's history of over or under spending on the General Fund budget, and the impact this trajectory would have on the use of General Fund reserves; and
- any other unusual future transactions or reliance upon the commercialisation agenda to derive future income streams, upon which the MTFS is reliant.

As a result of our assessment, we are satisfied that the Council's General Fund reserve balance at 31 March 2021 will remain above the Council's approved minimum level. We note that a fall by £3.3 million is expected to the General Fund Reserves between 31 March 2018 and 31 March 2019 but that a year on year increase of just over £3 million per annum is expected during the two years thereafter.

We note that the Council is currently debt free but that by the end of 2018/19, it is expected that planned borrowings of £5.9 million will have been taken out.



07 Other reporting issues



Other reporting issues

Other reporting issues

Consistency of other information published with the financial statements, including the Annual Governance Statement

We must give an opinion on the consistency of the financial and non-financial information in the Statement of Accounts 2017/18 with the audited financial statements.

We must also review the Annual Governance Statement for completeness of disclosures, consistency with other information from our work, and whether it complies with relevant guidance.

Financial information in the Statement of Accounts 2017/18 and published with the financial statements was consistent with the audited financial statements.

We have reviewed the Annual Governance Statement and can confirm it is consistent with other information from our audit of the financial statements and we have no other matters to report.

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, is specified by the National Audit Office.

We have no issues to raise.

Other powers and duties

We have a duty under the Local Audit and Accountability Act 2014 to consider whether to report on any matter that comes to our attention in the course of the audit, either for the Authority to consider it or to bring it to the attention of the public (i.e. "a report in the public interest"). We did not identify any issues which required us to issue a report in the public interest.

We also have a duty to make written recommendations to the Authority, copied to the Secretary of State, and take action in accordance with our responsibilities under the Local Audit and Accountability Act 2014. We did not identify any issues.

 Other reporting issues

Other reporting issues

Other matters

As required by ISA (UK&I) 260 and other ISAs specifying communication requirements, we must tell you significant findings from the audit and other matters if they are significant to your oversight of the Authority's financial reporting process. They include the following:

- Significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures;
- Any significant difficulties encountered during the audit;
- Any significant matters arising from the audit that were discussed with management;
- Written representations we have requested;
- Expected modifications to the audit report;
- Any other matters significant to overseeing the financial reporting process;
- Related parties;
- External confirmations;
- Going concern; and
- Consideration of laws and regulations;

We have no matters to report.

08

Assessment of Control Environment



Assessment of Control Environment

Financial controls

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.

As part of our audit of the financial statements, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. As we have adopted a fully substantive approach, we have therefore not tested the operation of controls.

Although our audit was not designed to express an opinion on the effectiveness of internal control we are required to communicate to you significant deficiencies in internal control.

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 of which you are not aware.

09 Data Analytics



Use of Data Analytics in the Audit

Analytics Driven Audit

Data analytics

We used our data analysers to enable us to capture entire populations of your financial data. These analysers:

- Help identify specific exceptions and anomalies which can then be the focus of our substantive audit tests; and
- Give greater likelihood of identifying errors than traditional, random sampling techniques.

In 2017/18, our use of these analysers in the Council's audit included testing journal entries and employee expenses, to identify and focus our testing on those entries we deem to have the highest inherent risk to the audit.

We capture the data through our formal data requests and the data transfer takes place on a secured EY website. These are in line with our EY data protection policies which are designed to protect the confidentiality, integrity and availability of business and personal information.

Journal Entry Analysis

We obtain downloads of all of the Council's financial ledger transactions posted in the year. We perform completeness analysis over the data, reconciling the sum of transactions to the movement in the trial balances and financial statements to ensure we have captured all data. Our analysers then review and sort transactions, allowing us to more effectively identify and test journals that we consider to be higher risk, as identified in our audit planning report.

Payroll Analysis

We also use our general ledger analyser in our payroll testing. We analyse the data against a number of specifically designed procedures. These include analysis of payroll costs by month to identify any variances from established expectations, as well as more detailed transactional interrogation.



10

Independence

 Independence

Confirmation



We confirm that there are no changes in our assessment of independence since our confirmation in our audit planning board report dated 1 March 2018.

We complied with the FRC Ethical Standards and the requirements of the 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 consider that our independence in this context is a matter which you should review, as well as us. It is important that those charged with governance consider the facts known to you and come to a view. If you would like to discuss any matters concerning our independence, we will be pleased to do this at the meeting of the General Purposes Committee on 30 July 2018.



The FRC Ethical Standard requires that we provide details of all relationships between Ernst & Young (EY) and your Council, and its directors and senior management and its affiliates, including all services provided by us and our network to your Council, its directors and senior management and its affiliates, and other services provided to other known connected parties that we consider may reasonably be thought to bear on the our integrity or objectivity, including those that could compromise independence and the related safeguards that are in place and why they address the threats.

There are no relationships from 1 April 2017 to the date of this report, which we consider may reasonably be thought to bear on our independence and objectivity.

Independence

Relationships, services and related threats and safeguards

Services provided by Ernst & Young

Below includes a summary of the fees that you have paid to us in the year ended 31 March 2018 in line with the disclosures set out in FRC Ethical Standard and in statute.

As at the date of this report, there are no future services which have been contracted and no written proposal to provide non-audit services has been submitted.

	Final Fee 2017/18	Planned Fee 2017/18	Scale Fee 2017/18	Final Fee 2016/17
	£	£	£	£
Total Audit Fee – Code work	TBC	52,830	52,830	52,830
Non-audit work [Grant claims]	TBC	10,980	13,220	14,012
Total	TBC	63,810	66,050	66,842

We undertook additional work this year on PPE valuations and engaged our EY Estates team. As a result of this work there are additional fees incurred on the main audit. We will quantify this and discuss this with your officers on completion of the audit and will advise the Audit Panel and the General Purposes Committee of final fees for 2017/18 once our work is complete.

Our audit of the housing benefit grant claim is not yet due – we will update our final fees in this area once it is complete.

A close-up photograph of a person's hand reaching into a filing cabinet to touch a folder. The cabinet is filled with numerous folders of various colors (yellow, orange, blue, white) and sizes, each containing stacks of papers. The background is a textured, light-colored wall.

11 Appendices

Appendix A

Required communications with the Audit Committee

There are certain communications that we must provide to the Audit Committees of UK clients. We have detailed these here together with a reference of when and where they were covered:

		 Our Reporting to you
Required communications	 What is reported?	 When and where
Terms of engagement	Confirmation by those charged with governance of acceptance of terms of engagement as written in the engagement letter signed by both parties.	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Our responsibilities	Reminder of our responsibilities as set out in the engagement letter.	Audit planning report, March 2018
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified.	Audit planning report, March 2018
Significant findings from the audit	<ul style="list-style-type: none"> • Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures • Significant difficulties, if any, encountered during the audit • Significant matters, if any, arising from the audit that were discussed with management • Written representations that we are seeking • Expected modifications to the audit report • Other matters if any, significant to the oversight of the financial reporting process 	Audit results report, July 2018

 Appendix A

		 Our Reporting to you
Required communications	 What is reported?	  When and where
Going concern	Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including: <ul style="list-style-type: none"> • Whether the events or conditions constitute a material uncertainty • Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements • The adequacy of related disclosures in the financial statements 	No conditions or events were identified, either individually or together, to raise any doubt about Test Valley Borough Council's ability to continue for the 12 months from the date of our report.
Misstatements	<ul style="list-style-type: none"> • Uncorrected misstatements and their effect on our audit opinion • The effect of uncorrected misstatements related to prior periods • A request that any uncorrected misstatement be corrected • Material misstatements corrected by management 	Audit results report, July 2018
Subsequent events	<ul style="list-style-type: none"> • Enquiry of the audit committee where appropriate regarding whether any subsequent events have occurred that might affect the financial statements. 	No conditions or events were identified, either individually or together, to raise any doubt about amounts or disclosures in Test Valley Borough Council's financial statements.
Fraud	<ul style="list-style-type: none"> • Enquiries of those charged with governance to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the Authority • Any fraud that we have identified or information we have obtained that indicates that a fraud may exist • Unless all of those charged with governance are involved in managing the Authority, any identified or suspected fraud involving: <ol style="list-style-type: none"> a. Management; b. Employees who have significant roles in internal control; or c. Others where the fraud results in a material misstatement in the financial statements. • The nature, timing and extent of audit procedures necessary to complete the audit when fraud involving management is suspected • Any other matters related to fraud, relevant to those charged with governance responsibility. 	Audit results report, July 2018

 Appendix A

		 Our Reporting to you
Required communications	 What is reported?	  When and where
Related parties	Significant matters arising during the audit in connection with the Authority's related parties including, when applicable: <ul style="list-style-type: none"> • Non-disclosure by management • Inappropriate authorisation and approval of transactions • Disagreement over disclosures • Non-compliance with laws and regulations • Difficulty in identifying the party that ultimately controls the Authority 	Audit results report, July 2018
Independence	Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence. Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as: <ul style="list-style-type: none"> • The principal threats • Safeguards adopted and their effectiveness • An overall assessment of threats and safeguards • Information about the general policies and process within the firm to maintain objectivity and independence Communications whenever significant judgments are made about threats to objectivity and independence and the appropriateness of safeguards put in place.	Audit planning report, March 2018 and Audit results report, July 2018

 Appendix A

		 Our Reporting to you
Required communications	 What is reported?	  When and where
	<ul style="list-style-type: none"> • Details of any inconsistencies between the Ethical Standard and Group's policy for the provision of non-audit services, and any apparent breach of that policy • Details of any contingent fee arrangements for non-audit services • Where EY has determined it is appropriate to apply more restrictive rules than permitted under the Ethical Standard • The audit committee should also be provided an opportunity to discuss matters affecting auditor independence 	
External confirmations	<ul style="list-style-type: none"> • Management's refusal for us to request confirmations • Inability to obtain relevant and reliable audit evidence from other procedures. 	We have received all requested confirmations
Consideration of laws and regulations	<ul style="list-style-type: none"> • Subject to compliance with applicable regulations, matters involving identified or suspected non-compliance with laws and regulations, other than those which are clearly inconsequential and the implications thereof. Instances of suspected non-compliance may also include those that are brought to our attention that are expected to occur imminently or for which there is reason to believe that they may occur • Enquiry of the audit committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the audit committee may be aware of 	We have asked management and those charged with governance. We have not identified any material instances or non-compliance with laws and regulations
Significant deficiencies in internal controls identified during the audit	<ul style="list-style-type: none"> • Significant deficiencies in internal controls identified during the audit. 	Audit results report, July 2018

 Appendix A

		 Our Reporting to you
Required communications	 What is reported?	  When and where
Written representations we are requesting from management and/or those charged with governance	<ul style="list-style-type: none"> Written representations we are requesting from management and/or those charged with governance 	Audit results report, July 2018
Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	<ul style="list-style-type: none"> Material inconsistencies or misstatements of fact identified in other information which management has refused to revise 	Audit results report, July 2018
Auditors report	<ul style="list-style-type: none"> Any circumstances identified that affect the form and content of our auditor’s report 	Audit results report, July 2018
Fee Reporting	<ul style="list-style-type: none"> Breakdown of fee information when the audit planning report is agreed Breakdown of fee information at the completion of the audit Any non-audit work 	Audit Planning Report, March 2018 Audit Results Report, July 2018
Certification work	<ul style="list-style-type: none"> Summary of certification work 	Certification Report, July 2018

 Appendix B

Management representation letter

Management Rep Letter

[To be prepared on the entity's letterhead]
[Date]

To:
Maria Grindley
Ernst & Young LLP
Apex Plaza
Forbury Road
Reading
RG1 1YE

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 2018. 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 2018 and of its income and expenditure for the year then ended in accordance with CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.

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 2017/18.
2. We acknowledge, as members of management 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 2017/18. 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 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 2017/18, that are free from material misstatement, whether due to fraud or error.
5. We believe that the effects of the unadjusted audit difference, shown in the accompanying schedule, accumulated by you during the current audit and pertaining to the latest period presented is immaterial, to the financial statements. We have not corrected this difference identified by and brought to the attention of management by the auditor because it is immaterial.

 Appendix B

Management representation letter

Management Rep Letter

.B. Non-compliance with law and regulations, including fraud

1. We acknowledge that we are responsible to determine that the Council's activities are conducted in accordance with laws and regulations and that we are responsible to identify and address any non-compliance with applicable laws and regulations, including fraud.

2. We acknowledge that we are responsible for the design, implementation and maintenance of internal controls to prevent and detect fraud.

3. 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.

C. 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 Borough Council, Cabinet, Overview and Scrutiny Committee and General Purposes Committee held through the year to the most recent meetings on the following dates; Borough Council: 27 June 2018; Cabinet: 20 June 2018; Overview and Scrutiny Committee: 25 June 2018; and General Purposes Committee: 20 June 2018

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 year end. These transactions have been appropriately accounted for and disclosed in the financial statements.

5. We believe that the significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable.

 Appendix B

Management representation letter

Management Rep Letter

6. 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.

D. 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 in the financial statements all guarantees that we have given to third parties.

E. Subsequent Events

1. Other than described in 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.

F. Other information

1. We acknowledge our responsibility for the preparation of the other information. The other information comprises the Narrative Report.

2. We confirm that the content contained within the other information is consistent with the financial statements.

G. Use of the Work of a Specialist

1. We agree with the findings of the specialists that we engaged to evaluate the valuation of land and buildings and investment property, in the calculation of the NDR appeals provision in generating the IAS19 pension disclosures 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.

H. Estimates

1. We believe that the measurement processes, including related assumptions and models, used to determine the accounting estimates have been consistently applied and are appropriate in the context of the applicable financial reporting framework.

2. We confirm that the significant assumptions used in making the NDR appeals provision, valuation of assets and IAS19 disclosure estimates appropriately reflect our intent and ability to carry out specific courses of action on behalf of the entity.

3. We confirm that the disclosures made in the financial statements with respect to the accounting estimates are complete and made in accordance with the applicable financial reporting framework.

4. We confirm that no adjustments are required to the accounting estimates and disclosures in the financial statements due to subsequent events.

 Appendix B

Management representation letter

Management Representation Letter

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.

Signed on behalf of Test Valley Borough Council

Yours faithfully,

 Will Fullbrook
 (Head of Finance and Section 151 Officer)
 Date

I confirm that this letter has been discussed and agreed at the General Purposes Committee on 30 July 2018.

 Councillor K. Hamilton
 (Vice Chair of the General Purposes Committee)
 Date

Schedule of unadjusted differences

	DR £	CR £
Other Long Term Liabilities	512,629	
Unuseable Reserves		512,629

Being the difference between the value of Test Valley Borough Council's share of Hampshire Pension Fund's assets as estimated by the actuary and as estimated by the auditor of the pension fund.

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ED None

This material has been prepared for general informational purposes only and is not intended to be relied upon as accounting, tax, or other professional advice. Please refer to your advisors for specific advice.

ey.com



Maria Grindley
Ernst & Young LLP
Apex Plaza
Forbury Road
Reading
RG1 1YE

Finance Service
Beech Hurst
Weyhill Road
Andover, Hampshire SP10 3AJ
Telephone 01264 368000
Fax 01264 368249
Minicom 01264 368052
Web site www.testvalley.gov.uk

Contact: William Fullbrook
Telephone: 01264 368000
E-mail: Finance@testvalley.gov.uk
Your ref:
Our ref:
Date: 30th July, 2018

Dear Maria,

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 2018. 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 2018 and of its income and expenditure for the year then ended in accordance with CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.

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 2017/18.
2. We acknowledge, as members of management 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 2017/18. 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 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 2017/18, that are free from material misstatement, whether due to fraud or error.
5. We believe that the effects of the unadjusted audit difference, shown in the accompanying schedule, accumulated by you during the current audit and pertaining to the latest period presented is immaterial to the financial statements. We have not corrected this difference, identified and brought to the attention of management by the auditor, because it is immaterial.

B. Non-compliance with law and regulations, including fraud

1. We acknowledge that we are responsible to determine that the Council's activities are conducted in accordance with laws and regulations and that we are responsible to identify and address any non-compliance with applicable laws and regulations, including fraud.
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3. 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.

C. 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 Borough Council, Cabinet, Overview and Scrutiny Committee and General Purposes Committee held through the year to the most recent meetings on the following dates:

Borough Council: 27 June 2018

Cabinet: 20 June 2018

Overview and Scrutiny Committee: 25 June 2018

General Purposes Committee: 20 June 2018

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 year end. These transactions have been appropriately accounted for and disclosed in the financial statements.
5. We believe that the significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable.
6. 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.

D. 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 in the financial statements all guarantees that we have given to third parties.

E. Subsequent Events

1. Other than described in 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.

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2. We confirm that the content contained within the other information is consistent with the financial statements.

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1. We agree with the findings of the specialists that we engaged to evaluate the valuation of land and buildings and investment property, in the calculation of the NDR appeals provision in generating the IAS19 pension disclosures 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.

H. Estimates

1. We believe that the measurement processes, including related assumptions and models, used to determine the accounting estimates have been consistently applied and are appropriate in the context of the applicable financial reporting framework.

2. We confirm that the significant assumptions used in making the NDR appeals provision, valuation of assets and IAS19 disclosure estimates appropriately reflect our intent and ability to carry out specific courses of action on behalf of the entity.
3. We confirm that the disclosures made in the financial statements with respect to the accounting estimates are complete and made in accordance with the applicable financial reporting framework.
4. We confirm that no adjustments are required to the accounting estimates and disclosures in the financial statements due to subsequent events.

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.

Signed on behalf of Test Valley Borough Council

Yours sincerely,

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 30th July 2018.

Councillor K. Hamilton
(Vice-Chairman of the General Purposes Committee)



STATEMENT OF ACCOUNTS 2017/18

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NARRATIVE STATEMENT

This narrative statement 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 covers 62,758 hectares on the western side of Hampshire. The borough contains a mixture of urban, semi-urban and rural areas, with a large proportion of residents living in either Andover or Romsey and the surrounding areas, or in towns and villages scattered across the borough.

Key facts about Test Valley

Population 125,170 (SAPF 2017 base)¹

Average house price £323,300 February 2018 (£225,000 National Average)²

82.7% of 16 – 64 Year olds in employment (74.9% National Average)³

Average gross weekly (Full time) earnings £630.40 (£552.70 National Average)³

515 (0.7%) of working age residents claiming job seekers allowance or universal credit (2.1% National Average)³

6,160 Business Enterprises³

14,000 tonnes of waste recycled or composted in 2017/18

1,766 planning applications received in 2017/18

Source:

1. *Hampshire County Council*
2. *Land Registry*
3. *NOMIS – Official Labour Market Statistics*

Governance

Test Valley Borough Council consists of 48 elected Councillors representing 24 wards. The political structure in 2017/18 was:

Conservative 38
 Liberal Democrat 9
 Independent 1

Full details of the governance arrangements in place at the Council are contained in the Annual Governance Statement accompanying these accounts.

Council Priorities, Corporate Plan and Performance

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 runs for the lifetime of the plan and is updated annually. It shows in detail how the Council is making progress against these priority aims and includes a range of corporate performance indicators.

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.

Annual reports are published on the Council website:

[Investing in Test Valley - the Corporate Plan 2015-19 | Test Valley Borough Council](#)

Achievements against the Corporate Action Plan

Work has continued on 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:

- Delivery of the highest number of overall completions of new homes in Hampshire for four of the last five years, which includes delivery of 217 affordable homes over the last year. Fourteen parishes have also started developing their Neighbourhood Plans.
- The ongoing rejuvenation of Walworth Business Park, in partnership with Kier, is delivering significant inward investment with the Walworth Business Park Extension (Logistics City) and the development of the Columbus Quarter coming forward.
- A programme of important enhancements to Andover and Romsey Town Centres continues with the ongoing installation of Arches in Andover and the completion of the Bell Street enhancements in Romsey in partnership with Hampshire County Council.
- A partnership agreement with Hampshire and Isle of Wight Wildlife Trust has been agreed to manage Fishlake Meadows, the new nature reserve in Romsey.
- As a result of having let a 30 year contract to Places for People, a £18M programme of refurbishment of leisure facilities is underway including the construction of Andover Leisure Centre which is due to open in 2019.
- Through “Romsey Future” good progress is being made working with partners in taking forward the action plan. Over the last year this has included the installation of new cycle parking which was chosen by local people as a priority, a new tourism website will be launching soon and the South of Town Centre master planning project has commenced.
- As part of Andover Vision work is underway with local stakeholders on a number of projects including Town Mills Riverside and the Big Lottery Place-based Social Action programme in partnership with Unity which was selected as one of twenty areas from across the country.

- Through the Council's corporate commitment to empower local communities this year saw 103 projects benefit from the Councillor Grants and Community Asset Fund totalling £331,819.

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 2017/18

The initial forecast of General Fund revenue requirements began soon after the budget for 2016/17 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 24th February 2017. The net expenditure forecast for 2017/18 agreed at this stage totalled £12.379M. No draws from general reserves were included in the budget.

The actual outturn for 2017/18 reported to Cabinet on 16th May 2018 was £429,000 better than expected. This surplus was transferred to the Special Projects Reserve and will be available to fund future corporate projects, such as the Andover Cultural Quarter project and the Romsey Future South of Town Centre project.

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

	Approved Budget 2017/18 £'000	Actual 2017/18 £'000	Variance £'000
Service Expenditure (including Investment Property income and expenditure)	15,966	16,286	(320)
Corporate Items			
Reversal of capital charges including depreciation	(4,475)	(6,065)	1,590
Investment income and borrowing	(337)	(528)	191
Non-service related grants	(5,829)	(6,605)	776
Business rates levy	1,497	2,529	(1,032)
Retention of business rates for renewable energy schemes	(359)	(903)	544
Transfers to Earmarked / Capital reserves	5,916	8,271	(2,355)
Additional transfers to reserves arising from surplus in year	0	429	(429)
Transfer to / (from) Pension Reserve	0	(974)	974
Other	0	16	(16)
GENERAL FUND REQUIREMENTS	12,379	12,456	(77)
Met By			
Revenue Support grant	418	418	0
Locally retained business rates	4,447	4,524	(77)
Council Tax	6,747	6,747	0
Other Collection Fund	767	767	0
TOTAL REVENUE RESOURCES	12,379	12,456	(77)

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 £20.517M for 2017/18. From this amount the Council was required to pay the government a 'tariff' of £16.070M, leaving net budgeted income in the year of £4.447M compared to a baseline of £2.224M.

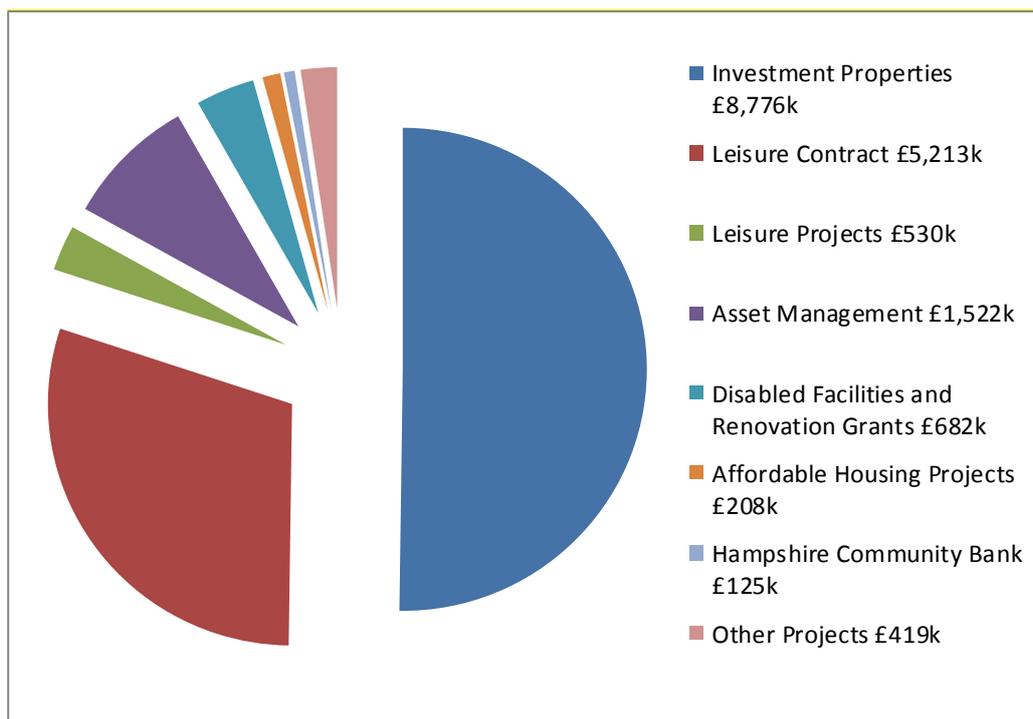
A complicated system of grants in respect of small business rate and other reliefs along with a levy for growth over the baseline figure is also in place. The budget assumed, after taking account of these reliefs and grants, a growth above the baseline of £2.995M resulting in a levy of £1.497M being payable. The actual retained income after taking account of the grants and a reduction in the tariff payable to the government was £7.282M, a growth of £5.058M over the baseline figure. Of this, 50% is payable to the government as a levy on growth, so the Council will retain a net surplus of £2.529M.

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

	£'000
Total retained income from business rates	7,282
Baseline	(2,224)
Net growth on business rates	5,058
Levy @ 50% payable to government	(2,529)
Income retained by Test Valley	2,529

Capital Programme

Direct capital spending for the year totalled £17.475M, as summarised in the following chart:



The Council has invested substantially in investment properties in the year. The most significant was the purchase of Andover Trade Park on 5th December 2017 for £6.612M.

On 1st April 2017, Places for People Leisure Management Ltd was appointed as the new leisure contract provider for the Council. As part of the terms of the contract, significant investment is planned to improve the borough's leisure facilities. This includes a brand new Andover Leisure Centre on the existing site and improvements to the other leisure centres including Romsey Rapids, Romsey Sports Centre, Knightwood Leisure Centre and Charlton Lakeside Pavilion. £5.213M has been spent in 2017/18, of which £4.618M is for Andover Leisure Centre.

The Council finances its capital expenditure from a mixture of usable capital receipts, capital grants and contributions. In 2017/18, almost half (49%) came from usable capital receipts (£8.632M) with the remainder contributions from revenue (£5.643M) and capital grants and contributions (£3.2M). The Council has set aside reserves for the future maintenance of its assets; budgeted asset management costs in 2018/19 and beyond will be funded from these reserves. The Council is currently debt free and has no long term borrowing.

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

	2018/19 £'000
Affordable Housing capital projects	1,110
Community & Leisure projects	1,016
Skate Parks	328
Leisure Contract	13,242
Play areas - Picket Twenty	259
Disabled facilities and renovation grants	950
Asset Management projects	2,601
Ganger Farm - Sports & Recreation	640
Investment Properties	6,418
Town Mill Access & Enhancement	132
Romsey Flood Alleviation Scheme	250
Hampshire Community Bank	250
CCTV for Commercial Vehicles	96
Other capital projects	112
TOTAL	27,404

Financial Position at the Year End

General Fund reserves stood at £2M at 1st April 2017. This is considered to be a prudent minimum level of general reserves and this figure remains unchanged for the accounts at 31st March 2018.

In addition to the General Fund balances mentioned above, the Council held earmarked reserves of £23.813M available for specific revenue purposes and capital reserves of £12.137M available to spend on capital schemes.

Valley Housing Limited

On 30th April 2016, Valley Housing Limited, a Housing Development and Management Company which is a wholly owned subsidiary of Test Valley Borough Council was incorporated. Group accounts have not been prepared for the year ended 31st March 2018 as the value of transactions is not considered to be material.

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 2017/18 has enabled the Council to bolster reserves held for any new, one-off projects. This, together with a number of specific reserves held to ameliorate the impact of reductions 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.

Risks and Opportunities

Local government is set to experience the most significant reform of its funding arrangements for two decades. The Fair Funding Review, reset of business rates baselines and changes to the business rates retention scheme all have critical implications for the distribution of funding across local government. At the same time, the results of the Spending Review 2019 will affect the total level of funding available to the sector from April 2020.

Work has already begun on addressing the key practical challenges these changes will bring and assessing the financial risks to the Council's budgets in future years.

In order to mitigate these risks, the Council will continue to build on its financial resilience using the workstreams outlined in its Medium Term Financial Strategy:

[Medium Term Financial Strategy](#)

Material Events after the Reporting Date

There are no material events after the balance sheet date which would have a material effect on the accounts for 2017/18.

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

EXPLANATION OF THE ACCOUNTING STATEMENT

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 2017/18.

The accounts for 2017/18 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 Expenditure and Funding Analysis** is a note to the financial statements, rather than a key statement. It shows all income and expenditure incurred by the Council throughout the year under statutory funding provisions and the adjustments that are required to these figures to produce the Comprehensive Income & Expenditure Statement under generally accepted accounting practices.
- **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 as 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 £157.3M.
- **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 and Crime Commissioner, 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.

STATEMENT OF RESPONSIBILITIES FOR THE STATEMENT OF ACCOUNTS 2017/18

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 31st March, 2018.

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

Signed Date.....
Cllr K Hamilton, Vice Chairman of the General Purposes Committee

EXPENDITURE AND FUNDING ANALYSIS YEAR ENDED 31ST MARCH 2018

The Expenditure and Funding Analysis shows how annual expenditure is used and funded from resources (government grants, council tax and business rates) by the Council in comparison with those resources consumed or earned by the Council in accordance with generally accepted accounting practices. It also shows how this expenditure is allocated for decision making purposes between the Council's services. Income and expenditure accounted for under generally accepted accounting practices is presented more fully in the Comprehensive Income and Expenditure Statement on page 12.

2016/17 restated			2017/18			Note
Net Expenditure Chargeable to the General Fund	Adjustments between the Funding and Accounting Basis	Net Expenditure in the Comprehensive Income and Expenditure Statement	Net Expenditure Chargeable to the General Fund	Adjustments between the Funding and Accounting Basis	Net Expenditure in the Comprehensive Income and Expenditure Statement	
£'000	£'000	£'000	£'000	£'000	£'000	
2,562	1,350	3,912	2,864	3,918	6,782	
3,180	1,220	4,400	3,175	1,502	4,677	
(7,300)	7,256	(44)	(8,000)	8,093	93	
1,605	915	2,520	1,435	1,134	2,569	
1,042	147	1,189	919	274	1,193	
1,900	123	2,023	1,726	203	1,929	
(314)	0	(314)	(137)	0	(137)	
6,050	(576)	5,474	6,248	(428)	5,820	
1,917	(798)	1,119	2,559	(401)	2,158	
10,642	9,637	20,279	10,789	14,295	25,084	5
		Net Cost of Services				
(15,860)	(10,795)	(26,655)	(12,250)	(14,555)	(26,805)	5
		Other Income & Expenditure				
(5,218)	(1,158)	(6,376)	(1,461)	(260)	(1,721)	5,8
		Surplus				
(19,134)		Opening General Fund	(24,352)			
		Surplus on General Fund in Year	(1,461)			
(5,218)		Closing General Fund	(25,813)			
(24,352)						

2016/17 £'000		2017/18 £'000
(2,000)	General Fund Balance	(2,000)
(22,352)	Earmarked Reserves Balance	(23,813)
(24,352)	Total General Fund	(25,813)

COMPREHENSIVE INCOME & EXPENDITURE STATEMENT YEAR ENDED 31 MARCH 2018

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 both the Expenditure and Funding Analysis and the Movement in Reserves Statement.

2016/17 restated		Net Exp.	Services	2017/18		Net Exp.	Note
Exp.	Income	2016/17		Exp.	Income	2017/18	
	£'000	£'000		£'000	£'000	£'000	
5,239	(1,327)	3,912	Community & Leisure	7,868	(1,086)	6,782	
5,871	(1,471)	4,400	Environmental Service	6,280	(1,603)	4,677	
4,596	(4,640)	(44)	Estates & Economic Development	4,683	(4,590)	93	
2,835	(315)	2,520	Housing & Environmental Health	3,127	(558)	2,569	
2,646	(1,457)	1,189	Planning & Building	2,747	(1,554)	1,193	
2,470	(447)	2,023	Revenues	2,378	(449)	1,929	
30,618	(30,932)	(314)	Benefits	26,299	(26,436)	(137)	
6,535	(1,061)	5,474	Corporate & Support	7,045	(1,225)	5,820	
2,321	(1,202)	1,119	Central Costs	2,978	(820)	2,158	
63,131	(42,852)	20,279	Net Cost of Services	63,405	(38,321)	25,084	
			Other Operating Income and Expenditure				
59	(937)	(878)	(Profit) / loss on disposal of Property, Plant & Equipment	5,417	(947)	4,470	20
1,344	(1,344)	0	Parish Precepts	1,404	(1,404)	0	
			Financing and Investment Income and Expenditure				
0	(564)	(564)	Interest Income	0	(528)	(528)	31
2	0	2	Interest Payable	0	0	0	
4,480	(2,890)	1,590	Pension Fund Interest Costs	4,000	(2,630)	1,370	14
501	0	501	Changes in Fair Value of Investment Properties	0	(756)	(756)	17
288	(6,781)	(6,493)	Net Investment Property Income	328	(7,517)	(7,189)	17
69,805	(55,368)	14,437	Net Operating Expenditure	74,554	(52,103)	22,451	
			Taxation and non-specific grant income				
0	(6,515)	(6,515)	Council Tax Income	0	(6,859)	(6,859)	9
17,072	(19,837)	(2,765)	Business Rates Income & Expenditure	18,521	(22,501)	(3,980)	9
0	(6,576)	(6,576)	Non Ringfenced Government Grants	0	(7,023)	(7,023)	9
0	(4,957)	(4,957)	Capital Grants and Contributions	0	(6,310)	(6,310)	9,21
86,877	(93,253)	(6,376)	Surplus on the provision of services	93,075	(94,796)	(1,721)	
			Other comprehensive income and expenditure				
0	(421)	(421)	Net gains on revaluation of Property, Plant & Equipment	0	(2,902)	(2,902)	16
6,410	0	6,410	Re-measurement of the net defined benefit pension liability	280	0	280	14
93,287	(93,674)	(387)	Total comprehensive income and expenditure	93,355	(97,698)	(4,343)	

MOVEMENT IN RESERVES STATEMENT YEAR ENDED 31 MARCH 2018

This statement shows the movement in the year on the different reserves held by the Council, analysed into "usable reserves" (i.e. those that can be applied to fund expenditure or local taxation) and "unusable reserves".

The statement shows how the movements in the year of the Council's reserves are broken down between gains and losses incurred in accordance with generally accepted accounting practices and the statutory adjustments required to return to the amounts chargeable to Council Tax for the year. The Net Increase / (Decrease) line shows the statutory General Fund Balance movements in the year following those adjustments.

	General Fund Balance £'000	Capital Receipts Reserve £'000	Capital Grants Unapplied £'000	Total Usable Reserves £'000	Unusable Reserves £'000	Total Authority Reserves £'000	Note
<u>Movements during 2016/17</u>							
Balance as at 31st March 2016	19,134	26,132	0	45,266	106,778	152,044	
Total Comprehensive Income & Expenditure	6,376	0	0	6,376	(5,989)	387	
Adjustments between accounting basis and funding basis under regulations	(1,158)	(7,474)	377	(8,255)	8,255	0	8
Increase / (Decrease) in Year	5,218	(7,474)	377	(1,879)	2,266	387	28,29
Balance as at 31st March 2017	24,352	18,658	377	43,387	109,044	152,431	
<u>Movements during 2017/18</u>							
Adjustment to correct 2016/17 closing balance	0	0	0	0	510	510	
Total Comprehensive Income & Expenditure	1,721	0	0	1,721	2,622	4,343	
Adjustments between accounting basis and funding basis under regulations	(260)	(7,684)	786	(7,158)	7,158	0	8
Increase / (Decrease) in Year	1,461	(7,684)	786	(5,437)	10,290	4,853	28,29
Balance as at 31st March 2018	25,813	10,974	1,163	37,950	119,334	157,284	

2016/17 £'000		2017/18 £'000
2,000	General Fund Balance	2,000
22,352	Earmarked Reserves Balance	23,813
24,352	Total General Fund	25,813

BALANCE SHEET AS AT 31 MARCH 2018

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 28 and 29.

2016/17			2017/18		Note
£'000	£'000		£'000	£'000	
55,848		Land & Buildings	50,826		16
2,897		Vehicles, Plant & Equipment	2,458		16
5,197		Community Assets	7,938		16
703		Infrastructure Assets	778		16
446		Surplus Assets	439		16
0		Assets under Construction	4,618		16
	65,091	Property, Plant & Equipment (PPE)		67,057	
	97,062	Investment Properties		106,836	17
	196	Intangible Assets		140	18
266		Long-Term Debtors	769		31
17,211		Long-Term Investments	17,336		31
	17,477	Long-Term Assets		18,105	
8,954		Cash and Cash Equivalents	8,639		22
37,349		Short-Term Investments	38,922		31
218		Inventories	202		
10,830		Debtors	12,035		23
(2,256)		Less: Bad Debt Allowance	(2,169)		23
	55,095	Current Assets		57,629	
(24,865)		Creditors	(32,688)		24
(1,725)		Provisions	(1,275)		25
	(26,590)	Current Liabilities		(33,963)	
	208,331	Total Assets less Current Liabilities		215,804	
(55,900)		Liability to Pension Fund	(58,520)		14
	(55,900)	Long-Term Liabilities		(58,520)	
	152,431	Net Assets		157,284	
		Usable Reserves			
2,000		General Fund Balance	2,000		28
22,352		Revenue and Earmarked Reserves	23,813		28
18,658		Capital Receipts Reserve	10,974		28
377		Capital Grants Unapplied	1,163		28
	43,387	Total Usable Reserves		37,950	
		Unusable Reserves			
16,287		Revaluation Reserve	17,201		29
148,033		Capital Adjustment Account	159,603		29
7		Deferred Credits	7		29
795		Collection Fund Adjustment Account	1,221		29
(178)		Accumulated Absences Account	(178)		29
(55,900)		Pension Fund Reserve	(58,520)		29
	109,044	Total Unusable Reserves		119,334	
	152,431	Total Equity		157,284	

These financial statements replace the unaudited financial statements certified on 31st May 2018.

Signed:..... Date: 30th July 2018

W Fullbrook, CPFA, Head of Finance

CASH FLOW STATEMENT YEAR ENDED 31 MARCH 2018

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.

2016/17			2017/18		Note
£'000	£'000		£'000	£'000	
		<u>Revenue Activities</u>			
	6,376	Net surplus on the provision of services		1,721	
		Adjustments for non-cash transactions			
2,338		Depreciation of PPE / Amortisation of intangibles	2,018		16,18
501		Revaluation (Gains) / Losses on Investment Properties	(756)		17
138		Impairment & Downward Valuations of PPE & intangibles	2,825		16,18
1,700		Pension Fund Transfers	2,340		14
(3,123)		Other non-cash items	(2,922)		27
	1,554			3,505	
	(2,123)	Adjustments in respect of Investing Activities		518	
		Adjustments for items on an accruals basis			
(1,453)		Increase in Debtors	(1,348)		
(27)		(Increase) / Decrease in Inventories	16		
3,536		Increase in Creditors	6,574		
	2,056			5,242	
	7,863	Net Cash Inflow from Operating Activities		10,986	27
		<u>Investing Activities</u>			
(61,811)		Purchase of Short-term and Long-term Investments	(45,669)		31
51,000		Proceeds from Short-term and Long-term Investments	44,000		31
(8,957)		Purchase of Assets	(14,899)		16,17
22		Sale of Assets	61		
2,297		Other Capital Cash Received	4,907		
	(17,449)	Net Investing Activity Cashflow		(11,600)	
		<u>Financing Activities</u>			
(1,155)		Other receipts / (payments) for financing activities	299		27
	(1,155)	Net Financing Activity Cashflow		299	
	(10,741)	Net Decrease in Cash and Cash Equivalents		(315)	
	19,695	Cash and Cash Equivalents at the start of the reporting period		8,954	
	8,954	Cash and Cash Equivalents at the end of the reporting period		8,639	

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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 2017/18 financial year and its position at the year-end of 31 March 2018. 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 CIPFA Code of Practice on Local Authority Accounting in the United Kingdom 2017/18 ('the Code') and the Service Reporting Code of Practice 2017/18 supported by International Financial Reporting Standards (IFRS) and statutory guidance.

The Statement of Accounts has been prepared on a going concern basis. 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.

The Council has made a prior period adjustment in preparing the 2017/18 Statement of Accounts.

- For comparative purposes, the 2016/17 Comprehensive Income & Expenditure Statement and Expenditure and Funding Analysis (and supporting notes) have been restated to reflect a change in the segmental reporting structure of the Council. The service Planning Policy and Transport has been split, with Planning Policy now under Corporate & Support and Transport now under Estates & Economic Development. The Balance Sheet, Movement in Reserves Statements and Cash Flow Statement are unaffected by this change.

There are no implications for the General Fund from this change.

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.

Community Infrastructure Levy

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

CIL is received without outstanding conditions; it is therefore recognised at the commencement date of the chargeable development in the Comprehensive Income and Expenditure Statement in accordance with the accounting policy for government grants and contributions set out above. CIL charges will be largely used to fund capital expenditure. However, a small proportion of the charges (5% for the Council) may be used to fund revenue expenditure.

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 14 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 accounted for under two separate headings, Corporate & Support and Central Costs, in the Expenditure & Funding Analysis and the Comprehensive Income & Expenditure Statement as part of the net cost of services. They are not charged to service segments.

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 rental income 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 section 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 section 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 minimis 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 19.

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, 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.

IFRS9 Financial Instruments has been implemented in the 2018/19 CIPFA Code of Practice. Its introduction will see the classifications of financial assets change to Amortised Cost, Fair Value through Comprehensive Income and Fair Value through Profit and Loss, from the previous categories of Loans and Receivables, Available for Sale and Fair Value through Profit and Loss.

The second main change will be the introduction of an expected credit loss model for particular asset types, rather than the impairment of the asset resulting from a specific incident.

The impact of the changes on the Council's financial position is likely to be immaterial. The main financial assets held by the Council will be treasury management investments which will move from the Loans and Receivables category to Amortised Cost and will be accounted for on a similar basis. In addition, the expected credit loss implication is anticipated to be minimal as the Council adopts strict credit quality arrangements in accordance with the CIPFA Treasury Management Code of Practice for its treasury investments.

IFRS15 Revenue from Contracts with Customers has been implemented in the 2018/19 CIPFA Code of Practice. It introduces a new model for the recognition of contractual income, based on the overall transaction price for goods and/or services to be provided against the satisfaction of the various performance obligations in the contract. The new model has the potential to change the date at which revenue is recognised compared to the current accounting requirements.

The impact of this change on the Council's financial position is expected to be immaterial.

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 31st March 2018 for which there is a significant risk of material adjustment in the forthcoming financial year are explained in the following table.

Item	Uncertainties	Effect if actual results differ from assumptions
Bad Debt Allowance	The Council has made allowances for doubtful debts of £2.169M in 2017/18 (2016/17 £2.256M) based on what it believes to be a prudent but realistic level.	If collection rates were to deteriorate or improve, a 5% change would require an adjustment to the allowance of £108,500 (2016/17 £112,800).
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	More information can be found in Note 14 about the sensitivity to changes in assumptions in respect of: <ul style="list-style-type: none"> • The discount rate used • Salary inflation

	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.	<ul style="list-style-type: none"> • Rates of increase to pensions in payment • Mortality rates
Provisions	The Council has made a provision of £1.275M in 2017/18 (2016/17 £1.725M) 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 £127,500 (2016/17 £172,500).

5. Note to the Expenditure and Funding Analysis

This note provides a reconciliation of the main adjustments to Net Expenditure Chargeable to the General Fund to arrive at the amounts in the Comprehensive Income and Expenditure Statement. The relevant transfers between reserves are explained in the Movement in Reserves Statement.

Transactions in 2017/18

Adjustments between Funding and Accounting Basis				
2017/18				
Adjustments from General Fund to arrive at the Comprehensive Income and Expenditure Statement amounts	Adjustments for Capital Purposes (Note a)	Net change for the Pensions Adjustments (Note b)	Other Differences (Note c)	Total Adjustments
	£'000	£'000	£'000	£'000
Community & Leisure	3,616	170	132	3,918
Environmental Service	695	467	340	1,502
Estates & Economic Development	656	248	7,189	8,093
Housing & Environmental Health	935	199	0	1,134
Planning & Building	9	265	0	274
Revenues & Benefits	0	203	0	203
Corporate & Support	154	(582)	0	(428)
Central Costs	0	0	(401)	(401)
Net Cost of Services	6,065	970	7,260	14,295
Other income and expenditure from the Expenditure and Funding Analysis	(8,239)	1,370	(7,686)	(14,555)
Difference between General Fund surplus or deficit and Comprehensive Income and Expenditure Statement Surplus or Deficit on the Provision of Services	(2,174)	2,340	(426)	(260)

Comparative Transactions for 2016/17

Adjustments between Funding and Accounting Basis 2016/17 restated				
	Adjustments for Capital Purposes (Note a) £'000	Net change for the Pensions Adjustments (Note b) £'000	Other Differences (Note c) £'000	Total Adjustments £'000
Community & Leisure	1,187	94	69	1,350
Environmental Service	682	240	298	1,220
Estates & Economic Development	632	131	6,493	7,256
Housing & Environmental Health	802	113	0	915
Planning & Building	9	138	0	147
Revenues & Benefits	0	121	2	123
Corporate & Support	151	(727)	0	(576)
Central Costs	0	0	(798)	(798)
Net Cost of Services	3,463	110	6,064	9,637
Other income and expenditure from the Expenditure and Funding Analysis	(7,562)	1,590	(4,823)	(10,795)
Difference between General Fund surplus or deficit and Comprehensive Income and Expenditure Statement Surplus or Deficit on the Provision of Services	(4,099)	1,700	1,241	(1,158)

a) Adjustments for Capital Purposes

This column adds in depreciation and impairment, revaluation gains and losses and revenue expenditure financed by capital under statute in the services lines, and for:

- **Other operating expenditure** – adjusts for capital disposals with a transfer of income on disposal of assets and the amount written off for those assets
- **Financing and investment income and expenditure** – the statutory charges for capital financing i.e. Minimum Revenue Provision and other revenue contributions are deducted from other income and expenditure as these are not chargeable under generally accepted accounting practices.
- **Taxation and non-specific grant income and expenditure** – capital grants are adjusted for income not chargeable under generally accepted accounting practices. Revenue grants are adjusted from those receivable in the year to those receivable without conditions or for conditions which were satisfied throughout the year. The taxation and non-specific grant income and expenditure line is credited with capital grants receivable in the year without conditions or for which conditions were satisfied in the year.

b) Net Change for the Pensions Adjustments

This column shows the net change for the removal of pension contributions and the addition of IAS19 Employee Benefits pension related expenditure and income:

- For **services** – this represents the removal of the employer pension contributions made by the authority under statute and the replacement with current service costs and past service costs.
- For **Financing and investment income and expenditure** – the net interest on the defined benefit liability is charged to the Comprehensive Income & Expenditure Statement.

c) Other differences

Other differences between amounts debited / credited to the Comprehensive Income and Expenditure Statement and amounts payable / receivable to be recognised under statute:

- For **services** – this represents items not reported to management in the revenue outturn report, such as Section 106 commuted income and the movement in the untaken leave accrual, and amounts which were reported to management but are not included in the net cost of services in the Comprehensive Income & Expenditure Statement as per the following table.

Committed income from Section 106 grants of £401,000 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 used to pay for maintenance in the year was £472,000.

- For **Financing and investment income and expenditure** – this column recognises adjustments to the General Fund for net investment property income of £7.189M which is reported in the General Fund in Net Cost of Services.
- For **Taxation and non-specific grant income and expenditure** - this column represents the difference of £426,000 between what is chargeable under statutory regulations for Council Tax and NDR that was projected to be received at the beginning of the year and the income recognised under generally accepted accounting practices in the Code of Practice. This is a timing difference, as any difference will be brought forward in future Surpluses or Deficits on the Collection Fund.

6. Segmental Income

Income received from external customers is analysed on a segmental basis in the following table:

Service	2016/17 restated Revenues from external customers £'000	2017/18 Revenues from external customers £'000
Community & Leisure	1,184	947
Environmental Service	1,470	1,603
Estates & Economic Development	11,411	12,106
Housing & Environmental Health	315	327
Planning & Building	1,451	1,554
Revenues	257	215
Benefits	1,356	1,056
Corporate & Support	999	1,113
Central	794	402
Total income analysed on a segmental basis	19,237	19,323

7. **Expenditure and Income analysed by nature**

The Council's expenditure and income is analysed in the following table:

Expenditure / Income	2016/17 £'000	2017/18 £'000
Expenditure		
Employee benefits expenses	17,074	18,704
Other service expenses	42,731	38,775
Depreciation, amortisation, impairment	2,478	4,843
Other capital charges	986	1,223
Interest payable	2	0
Precepts and levies	1,344	1,404
Pension fund interest costs	1,590	1,370
Total expenditure	66,205	66,319
Income		
Fees, charges and other service income	(19,237)	(19,323)
Interest and investment income	(564)	(528)
Changes in fair value of investment properties	501	(756)
Income from council tax and non-domestic rates	(10,624)	(12,243)
Government grants and contributions	(41,779)	(39,660)
(Gain) / loss on the disposal of assets	(878)	4,470
Total income	(72,581)	(68,040)
Surplus on the Provision of Services	(6,376)	(1,721)

8. **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 2017/18

	General Fund Balance	Capital Receipts Reserve	Capital Grants Unapplied Reserve	Total Usable Reserves	Unusable Reserves	Note
	£'000	£'000	£'000	£'000	£'000	
Adjustments primarily involving the Capital Adjustment Account						
Depreciation of non-current assets	1,962	0	0	1,962	(1,962)	16
Amortisation of intangible assets	56	0	0	56	(56)	18
Impairment of non-current assets	2,825	0	0	2,825	(2,825)	16
Movement in the fair value of investment property	(756)	0	0	(756)	756	17
Loss on disposal of non-current assets	4,470	0	0	4,470	(4,470)	20
Revenue expenditure funded from capital under statute	560	(560)	0	0	0	29
Capital grants, contributions and income in relation to donated assets credited to the CI&ES	(2,359)	0	0	(2,359)	2,359	21
Adjustments primarily involving the Capital Receipts Reserve						
Proceeds from disposal of non-current assets	0	947	0	947	(947)	28
Financing of new capital expenditure	(8,180)	(8,071)	0	(16,251)	16,251	21
Adjustments primarily involving the Capital Grants Unapplied Reserve						
Capital grants credited to CI&ES for which expenditure has not yet been incurred	(752)	0	752	0	0	28
Capital loan repayments transferred to Capital Grants Unapplied reserve for future use	0	0	34	34	(34)	28
Adjustments primarily involving the Pensions Reserve						
Reversal of items relating to retirement benefits charged to the CI&ES	4,900	0	0	4,900	(4,900)	14
Employer's contribution to pension fund / directly to pensioners	(2,560)	0	0	(2,560)	2,560	14
Adjustments primarily involving the Collection Fund Adjustment Account						
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.	(426)	0	0	(426)	426	29
	(260)	(7,684)	786	(7,158)	7,158	

Comparative Transactions for 2016/17

	General Fund Balance	Capital Receipts Reserve	Capital Grants Unapplied Reserve	Total Usable Reserves	Unusable Reserves	Note
	£'000	£'000	£'000	£'000	£'000	
Adjustments primarily involving the Capital Adjustment Account						
Depreciation of non-current assets	2,282	0	0	2,282	(2,282)	16
Amortisation of intangible assets	56	0	0	56	(56)	18
Impairment of non-current assets	138	0	0	138	(138)	16
Movement in the fair value of investment property	501	0	0	501	(501)	17
Profit on disposal of non-current assets	(878)	0	0	(878)	878	20
Revenue expenditure funded from capital under statute	249	(249)	0	0	0	29
Capital grants, contributions and income in relation to donated assets credited to the CI&ES	(3,712)	0	0	(3,712)	3,712	21
Adjustments primarily involving the Capital Receipts Reserve						
Proceeds from disposal of non-current assets	0	943	0	943	(943)	28
Financing of new capital expenditure	(2,358)	(8,168)	0	(10,526)	10,526	21
Adjustments primarily involving the Capital Grants Unapplied Reserve						
Capital grants credited to CI&ES for which expenditure has not yet been incurred	(377)	0	377	0	0	28
Adjustments primarily involving the Pensions Reserve						
Reversal of items relating to retirement benefits charged to the CI&ES	3,970	0	0	3,970	(3,970)	14
Employer's contribution to pension fund / directly to pensioners	(2,270)	0	0	(2,270)	2,270	14
Adjustments primarily involving the Collection Fund Adjustment Account						
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.	1,239	0	0	1,239	(1,239)	29
Adjustments primarily involving the Accumulated Absences Account						
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.	2	0	0	2	(2)	29
	(1,158)	(7,474)	377	(8,255)	8,255	

9. Taxation and Non-Specific Grant Income

The Council received income from Council Tax and revenue grants from the Ministry of Housing, Communities and Local Government (MHCLG). These are summarised in the following table.

Taxation / Non-Ringfenced Grants	Awarding Body	2016/17 £'000	2017/18 £'000
Council Tax Income	Council Taxpayers	6,515	6,859
Revenue Support Grant	MHCLG	1,012	417
New Homes' Bonus	MHCLG	4,798	4,921
Small Business Rate Relief	MHCLG	573	1,210
Transparency Code Set-Up	MHCLG	8	8
First Property Relief	MHCLG	0	9
Transition Grant	MHCLG	54	54
'Long Term Empty' Properties Relief	MHCLG	7	0
'New Empty' Properties Relief	MHCLG	18	88
Retail Relief	MHCLG	10	0
Discretionary Relief	MHCLG	0	127
Council Tax Family Annex Grant	MHCLG	40	53
Letting Agents Transparency Grant	MHCLG	1	1
Public Houses Relief	MHCLG	0	18
Property Searches New Burden Grant	MHCLG	6	0
Rural Rate Relief	MHCLG	0	12
Supporting Small Businesses	MHCLG	0	7
Business Rate Tariff Adjustment	MHCLG	0	1
Multiplier Cap	MHCLG	49	97
		13,091	13,882

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.

Business Rates Income & Expenditure	2016/17 £'000	2017/18 £'000
Share of income transferred from Collection Fund	18,597	21,826
Tariff paid to government	(16,458)	(15,992)
Share of surplus on Collection Fund in the year	1,240	675
Levy payable to government in respect of growth in the year	(614)	(2,529)
Net Business Rates Income	2,765	3,980

Capital grants and contributions were received in the year as shown in the following table and includes £2.359M in donated assets under section 106 agreements (2016/17 includes £3.712M in donated assets under section 106 agreements).

Capital Grants and Contributions	Awarding Body	2016/17 £'000	2017/18 £'000
Disabled Facilities Grant	MHCLG	938	1,124
Contributions to works on property	Tenants / Other developers	63	105
Contributions under s106 and CIL agreements / capital grants	Developers	3,956	5,081
		4,957	6,310

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

Specific Grants included in the Net Cost of Services	Awarding Body	2016/17 £'000	2017/18 £'000
Housing Benefit Subsidy	DWP	29,425	25,170
Housing Benefit Administration Subsidy	DWP	304	278
Localising Council Tax Admin Subsidy	MHCLG	98	95
Discretionary Housing Payments	DWP	150	211
Universal Credit New Burdens Grant	DWP	0	10
Discretionary Housing Payments Admin New Burdens Grant	DWP	0	24
Business Rates Collection	MHCLG	188	188
Business Rates New Burden Admin Costs Grant	MHCLG	0	12
NDR Revaluation Flyer Grant	MHCLG	2	0
Disabled Facilities Grant	MHCLG	0	16
Individual Electoral Registration	MHCLG	24	43
Flexible Homelessness Support Grant	MHCLG	0	169
Preventing Homelessness Grant	MHCLG	0	42
Single Homelessness Grant	MHCLG	0	4
Neighbourhood Planning and Local Planning: Local Authority Service Redesign and Capacity Building Fund	MHCLG	42	0
Referendum Registration Deadline Extension Grant	Cabinet Office	6	0
Self and Custom Build Register New Burden Grant	MHCLG	6	45
Brown Field Grant	MHCLG	0	20
		30,245	26,327

10. **Special Expenses**

Income from the special Council Tax Levy which applies in the Andover Town Council area was £292,800 in 2017/18 (£301,000 – 2016/17).

11. **External Audit Costs**

In 2017/18 Test Valley Borough Council incurred the following fees in relation to external audit and inspection.

Class of Work	2016/17 £'000	2017/18 £'000
External Audit Fees	53	53
Certification of Grants Claim and Returns	14	13
	67	66

12. Members' Allowances

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

	2016/17 £'000	2017/18 £'000
Allowances	438	444
Expenses	12	14
Total Members' Allowances	450	458

13. 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 2017/18 was:-

Remuneration Band	2016/17 Number of Employees	2017/18 Number of Employees
£50,000 - £54,999	9	7
£55,000 - £59,999	5	6
£60,000 - £64,999	3	3
£65,000 - £69,999	0	4
£70,000 - £74,999	6	0
£75,000 - £79,999	2	4
£80,000 - £84,999	0	2
£85,000 - £99,999	0	0
£100,000 - £104,999	1	0
£105,000 - £109,999	1	2
£110,000 - £129,999	0	0
£130,000 - £134,999	1	0
£135,000 - £144,999	0	0
£145,000 - £149,999	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 previous table.

Post	Salary (Including Fees and Allowances)		Car Allowance and Other Expenses		Total Remuneration Excluding Pension Contributions		Pension Contributions		Total Remuneration Including Pension Contributions	
	16/17 £'000	17/18 £'000	16/17 £'000	17/18 £'000	16/17 £'000	17/18 £'000	16/17 £'000	17/18 £'000	16/17 £'000	17/18 £'000
Chief Executive - Note (a)	124	138	9	9	133	147	15	19	148	166
Corporate Director	98	101	8	9	106	110	13	14	119	124
Corporate Director	98	101	6	6	104	107	13	14	117	121
Head of Community & Leisure	70	73	7	8	77	81	9	10	86	91
Head of Environmental Services	67	74	8	9	75	83	9	10	84	93
Head of Estates	68	74	4	4	72	78	9	10	81	88
Head of Finance	68	73	5	4	73	77	9	10	82	87
Head of Housing & Environmental Health (1) - Note (b)	67	13	5	1	72	14	9	1	81	15
Interim Head of Housing & Environmental Health - Note (b)	0	26	0	2	0	28	0	4	0	32
Head of Housing & Environmental Health (2) - Note (b)	0	29	0	2	0	31	0	4	0	35
Head of IT - Note (c)	67	73	5	3	72	76	9	10	81	86
Head of Legal & Democratic (1) - Note (d)	57	0	5	0	62	0	7	0	69	0
Head of Legal & Democratic (2) - Note (d)	14	63	0	4	14	67	0	0	14	67
Head of Planning & Building	67	73	4	4	71	77	9	10	80	87
Acting Head of Revenues - Benefits & Customer Services - Note (e)	33	35	2	2	35	37	4	5	39	42
Acting Head of Revenues - Local Taxation Note (e)	33	37	2	2	35	39	4	5	39	44

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 2017/18 were £19,400 (2016/17 £6,600).

Note (b) – The Head of Housing and Environmental Health (1) retired part way through the year. An Interim Head of Housing and Environmental Health was in place until a permanent Head of Housing and Environmental Health (2) was appointed. Part year costs are shown in the previous table for these posts.

Note (c) – The Council shared the Head of IT with Winchester City Council in the year and received £46,200 as a contribution towards the employment costs of the postholder (2016/17 £41,600).

Note (d) – The Head of Legal & Democratic (1) left during 2016/17. An Interim Head of Legal & Democratic was subsequently appointed in 2016/17, and became the permanent Head of Legal & Democratic (2) during 2017/18. Part year costs are shown for 2016/17.

Note (e) – The Head of Revenues post has been split into 2 posts. The officers in these posts also have non-senior officer roles for the remainder of their time and the table above includes the costs for the two part time Senior Officer posts only.

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	
	2016/17	2017/18	2016/17	2017/18	2016/17 £'000	2017/18 £'000
£0 - £20,000	0	0	3	2	11	19
£20,001 - £40,000	2	2	0	0	60	69
Total	2	2	3	2	71	88

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

14. 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:

<u>Comprehensive Income & Expenditure Statement</u>	2016/17 £'000	2017/18 £'000
<u>Cost of Services</u>		
Current Service Costs	2,590	3,740
Unfunded Benefits Paid Out	(210)	(210)
<u>Financing & Investment Income & Expenditure</u>		
Interest Cost	4,480	4,000
Interest Income	(2,890)	(2,630)
Total amount included in the Surplus on Provision of Services	3,970	4,900
<u>Other Comprehensive Income & Expenditure</u>		
Actuarial (gains) / losses due to change in financial assumptions	27,840	(150)
Actuarial gains due to demographic assumption changes	(1,850)	0
Experience (gains) / losses on liabilities	(1,130)	960
Remeasurement gains on assets	(18,450)	(530)
Total amount charged to the Comprehensive Income & Expenditure Statement	10,380	5,180
<u>Movement In Reserves Statement</u>		
Reversal of net charges made to the deficit on the provision of services in accordance with the Code	(3,970)	(4,900)
Actual employer's contributions payable	2,270	2,560
Total Amount included in the Movement in Reserves Statement (note 8)	(1,700)	(2,340)

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 2017/18 the rate was 14.1% plus a fixed sum contribution of £854,700 (2016/17 13.1% plus £785,600 fixed sum contribution).

It is forecast that pension contributions payable by the employer in 2018/19 in respect of regular contributions will amount to £2.82M and in respect of unfunded liabilities will amount to £220,000.

The allowance for administration expenses included in the Current Service Cost is £40,000 (2016/17 £30,000).

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 31st March 2018 was £58.52M (2016/17 - £55.9M).

Liabilities	2016/17 £'000	2017/18 £'000
Opening present value of funded liabilities	129,670	158,180
Current Service Cost	2,590	3,740
Interest Cost	4,360	3,910
Contributions by Participants	780	840
Actuarial (gain) / loss on liabilities due to change in financial assumptions	27,500	(160)
Actuarial gain on liabilities due to change in demographic assumptions	(1,770)	0
Experience (gains) / losses on liabilities	(1,080)	930
Net benefits paid out (including unfunded liabilities)	(3,870)	(4,440)
Closing present value of unfunded liabilities	158,180	163,000
Opening present value of unfunded liabilities	3,490	3,610
Interest Cost	120	90
Actuarial loss on liabilities due to change in financial assumptions	340	10
Actuarial gains on liabilities due to change in demographic assumptions	(80)	0
Experience (gains) / losses on liabilities	(50)	30
Net benefits paid out	(210)	(210)
Closing present value of unfunded liabilities	3,610	3,530
Total present value of scheme liabilities	161,790	166,530

Assets	2016/17 £'000	2017/18 £'000
Opening fair value of assets	85,370	105,890
Interest income on assets	2,890	2,630
Actuarial gain on assets	18,450	530
Contributions by the employer	2,270	2,560
Contributions by participants	780	840
Net benefits paid out	(3,870)	(4,440)
Closing fair value of assets	105,890	108,010

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.

Assets	2016/17 £'000	2017/18 £'000
Interest income on assets	2,890	2,630
Actuarial gains on assets	18,450	530
Actual return on assets	21,340	3,160

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 2016 and a duration of liabilities of 17.9 years.

The principal assumptions used by the actuary were:

	2016/17	2017/18
Discount rate for funded liabilities	2.5%	2.6%
Discount rate for unfunded liabilities	2.5%	2.6%
Rate of Inflation - RPI (funded)	3.1%	3.2%
Rate of Inflation - RPI (unfunded)	3.1%	3.2%
Rate of Inflation - CPI (funded)	2.0%	2.1%
Rate of Inflation - CPI (unfunded)	2.0%	2.1%
Rate of increase in salaries	3.5%	3.6%
Rate of increase in pensions in payment	2.0%	2.1%
Rate of increase in pensions in deferment	2.0%	2.1%
Mortality Assumptions		
Longevity at 65 for current pensioners (years)		
Men	24.0	24.1
Women	27.0	27.2

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 31st March 2018.

	2016/17	2017/18
Equities	60.3%	62.6%
Bonds	26.6%	24.7%
Property	6.5%	7.0%
Other	6.6%	5.7%
Total	100.0%	100.0%

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 31st March 2018 and the projected service cost for the year ending 31st March 2019 is set out in the following table. In each case, only the assumption mentioned is altered; all other assumptions remain the same.

Discount rate		
Adjustment to rate	+0.1% pa	-0.1% pa
Present value of total obligation (£M)	160.11	165.94
% change in present value of total obligation	-1.8%	1.8%
Projected service cost (£M)	3.76	3.99
Approx % change in projected service cost	-2.9%	3.0%
Rate of increase in salaries		
Adjustment to salary increase rate	+0.1% pa	-0.1% pa
Present value of total obligation (£M)	163.50	162.50
% change in present value of obligation	0.3%	-0.3%
Projected service cost (£M)	3.87	3.87
Approx % change in projected service cost	0.0%	0.0%
Rate of increase to pensions in payment		
Adjustment to pension rate	+0.1% pa	-0.1% pa
Present value of total obligation (£M)	165.44	160.60
% change in present value of obligation	1.5%	-1.5%
Projected service cost (£M)	3.99	3.76
Approx % change in projected service cost	3.0%	-2.9%
Post retirement mortality assumptions (follow pattern of person one year older or younger)		
Adjustment to pension rate	-1 year	+1 year
Present value of total obligation (£M)	167.79	158.23
% change in present value of obligation	2.9%	-2.9%
Projected service cost (£M)	4.01	3.73
Approx % change in projected service cost	3.6%	-3.6%

15. 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.

	2016/17	2017/18
	£'000	£'000
Receivable within one year	6,752	7,390
Receivable within one to five years	26,079	28,819
Receivable after five years	419,253	416,034
Total minimum lease rentals receivable	452,084	452,243

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

In 2017/18 the Council recognised income from contingent rents of £597,000 (2016/17 - £325,000).

16. 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.

2017/18	Land & Buildings	Vehicles, Plant & Equipment	Infra structure	Community	Surplus Assets	Asset Under Construction	Total
Cost / Valuation	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Historic Cost b/f	47,130	6,978	786	6,605	559	0	62,058
Revaluation Increases shown in the Revaluation Reserve b/f	16,913	11	54	0	0	0	16,978
Revaluation Decreases shown in the CI&ES b/f	(5,227)	(102)	(16)	(923)	(107)	0	(6,375)
Additions	1,007	650	116	2,877	0	4,618	9,268
Revaluations	2,902	0	0	0	0	0	2,902
Disposals - Historic Cost	(3,354)	(220)	0	(20)	0	0	(3,594)
Disposals - Revalued Amounts	(1,819)	(4)	0	0	0	0	(1,823)
Reverse depreciation on disposed / revalued assets	(2,893)	(680)	0	0	0	0	(3,573)
Impairments in year	(2,825)	0	0	0	0	0	(2,825)
Cost / Valuation at 31st March 2018	51,834	6,633	940	8,539	452	4,618	73,016
Depreciation							
Historic Cost Depreciation b/f	(2,295)	(3,984)	(105)	(485)	(6)	0	(6,875)
Depreciation on Revaluations b/f	(673)	(6)	(16)	0	0	0	(695)
Charge in year - Historic Cost	(777)	(864)	(33)	(116)	(7)	0	(1,797)
Charge in year - Revalued Amounts	(156)	(1)	(8)	0	0	0	(165)
Reverse depreciation on disposed / revalued assets	2,893	680	0	0	0	0	3,573
Depreciation at 31st March 2018	(1,008)	(4,175)	(162)	(601)	(13)	0	(5,959)
Net Book Value at 31st March 2018	50,826	2,458	778	7,938	439	4,618	67,057
Net Book Value at 31st March 2017	55,848	2,897	703	5,197	446	0	65,091

Comparative Information for 2016/17

2016/17	Land & Buildings	Vehicles, Plant & Equipment	Infra structure	Community	Surplus Assets	Total
Cost / Valuation	£'000	£'000	£'000	£'000	£'000	£'000
Historic Cost b/f	44,558	6,865	733	6,183	559	58,898
Revaluation Increases shown in the Revaluation Reserve b/f	17,823	11	54	0	0	17,888
Revaluation Decreases shown in the CI&ES b/f	(6,048)	(133)	(16)	(910)	(107)	(7,214)
Additions	3,864	388	53	339	0	4,644
Reclassification	(1,311)	0	0	83	0	(1,228)
Revaluations	421	0	0	0	0	421
Disposals - Historic Cost	(59)	(6)	0	0	0	(65)
Reverse depreciation on disposed / revalued assets	(307)	(238)	0	0	0	(545)
Impairments in year	(125)	0	0	(13)	0	(138)
Cost / Valuation at 31st March 2017	58,816	6,887	824	5,682	452	72,661
Depreciation						
Historic Cost Depreciation b/f	(1,574)	(3,376)	(74)	(371)	0	(5,395)
Depreciation on Revaluations b/f	(425)	(5)	(8)	0	0	(438)
Charge in year - Historic Cost	(997)	(846)	(31)	(114)	(6)	(1,994)
Charge in year - Revalued Amounts	(279)	(1)	(8)	0	0	(288)
Reverse depreciation on disposed / revalued assets	307	238	0	0	0	545
Depreciation at 31st March 2017	(2,968)	(3,990)	(121)	(485)	(6)	(7,570)
Net Book Value at 31st March 2017	55,848	2,897	703	5,197	446	65,091
Net Book Value at 31st March 2016	54,334	3,362	689	4,902	452	63,739

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 or other 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.

	Cost	Depreciated Cost	Reval 2013/14	Reval 2014/15	Reval 2015/16	Reval 2016/17	Reval 2017/18	Total value of PPE
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Land and Buildings	0	0	2,864	14,158	85	3,467	30,252	50,826
Vehicles, Plant & Equipment	678	1,780	0	0	0	0	0	2,458
Infrastructure	134	241	0	403	0	0	0	778
Community	6,490	1,448	0	0	0	0	0	7,938
Surplus Assets	0	0	0	0	439	0	0	439
Asset Under Construction	4,618	0	0	0	0	0	0	4,618
Total PPE Assets	11,920	3,469	2,864	14,561	524	3,467	30,252	67,057

The Council carries out a rolling programme of valuations that ensures all PPE assets are valued at least once every five years. Revaluations in 2017/18 were carried out by the Council's internal RICS registered valuer and all revaluations were carried out as at 31st January 2018 and reviewed at 31st March 2018 to ensure that there were no material changes.

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 2018 contractual commitments on existing capital schemes totalled £14.523M (2016/17 £421,900). The most significant item is £13.984M in relation to the redevelopment of the Borough's leisure facilities, most notably the rebuild of Andover Leisure Centre.

17. 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.

	2016/17 £'000	2017/18 £'000
Rental income from Investment Property	6,781	7,517
Investment Property direct costs	(288)	(328)
Net Investment Property income	6,493	7,189

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. At the 31st March 2018, the Council has a contractual commitment of £5.641M to construct investment property.

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

	2016/17 £'000	2017/18 £'000
Balance at start of year	87,584	97,062
Purchase of new property	6,772	7,720
Expenditure on existing property	426	421
Expenditure on property under construction	1,553	877
Reclassifications	1,228	0
Net changes in fair value of property	(501)	756
Balance at end of year	97,062	106,836

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.

18. 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.

	Software Licences £'000	Market Rights £'000	Total £'000
Cost or Valuation			
Cost / Fair Value b/f	773	57	830
Cost / Valuation at 31st March 2018	773	57	830
Amortisation			
Amortisation of Historic Cost b/f	(634)	0	(634)
Charge for the year	(56)	0	(56)
Amortisation at 31st March 2018	(690)	0	(690)
Net Book Value as at 31st March 2018	83	57	140
Net Book Value as at 31st March 2017	139	57	196

Comparative information for 2016/17

	Software Licences £'000	Market Rights £'000	Total £'000
Cost or Valuation			
Cost / Fair Value b/f	773	57	830
Cost / Valuation at 31st March 2017	773	57	830
Amortisation			
Amortisation of Historic Cost b/f	(578)	0	(578)
Charge for the year	(56)	0	(56)
Amortisation at 31st March 2017	(634)	0	(634)
Net Book Value as at 31st March 2017	139	57	196
Net Book Value as at 31st March 2016	195	57	252

19. 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.

	Carrying Value	Fair Value	Carrying Value	Fair Value
	2016/17 £'000	2016/17 £'000	2017/18 £'000	2017/18 £'000
Included in Community Assets	236	411	236	411
Not included in the Balance Sheet	0	190	0	190
Total	236	601	236	601

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.

20. Profit / (loss) on Disposal of Assets

During the year, the Council made a net loss on the disposal of fixed assets of £4.47M (2016/17 profit of £878,000). An analysis of this profit / (loss) is shown in the following table.

	2016/17 £'000	2017/18 £'000
Right To Buy Contributions	921	889
Loss on disposal of property, plant & equipment	(43)	(5,359)
Total Profit / (Loss) on Disposal of Assets	878	(4,470)

The loss on disposal of property, plant & equipment includes £5.106M for the partial demolition of Andover Leisure Centre.

21. Capital Expenditure and Financing

Total Capital Expenditure to be financed in 2017/18 amounted to £17.475M. This can be analysed as expenditure on new assets (£15.928M), revenue expenditure funded from capital under statute (£1.223M) and expenditure classified as financial instruments (£324,000).

	2016/17 £'000	2017/18 £'000
Opening Capital Financing Requirement	(660)	(678)
Adjustment to correct 2015/16 closing CFR	(18)	0
Capital Expenditure		
Property, Plant & Equipment	4,644	9,268
Investment Property	8,751	9,018
Intangible Assets	0	0
Revenue Expenditure Funded from Capital Under Statute	986	1,223
Capital loan	843	199
Equity investment	0	125
Sources of Finance		
Capital Receipts	(8,416)	(8,632)
Government Grants and Other Contributions	(4,580)	(5,558)
Contributions from Revenue / Reserves	(2,228)	(5,643)
Closing Capital Finance Requirement	(678)	(678)

The Property, Plant & Equipment line and the Government Grants and Contributions line above for 2017/18 include the assumed cost and contribution of donated assets valued at £2.359M (2016/17 £3.712M) which the Council did not purchase but which were adopted during the year as part of a S106 agreement.

The Government Grants and Other Contributions line shown in the previous table represents the total 'Capital Grants and Contributions' figure per the Comprehensive Income & Expenditure Statement less the transfer to the capital grants unapplied reserve of £752,000.

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

	2017/18 Long-Term Assets	2017/18 Revenue Expenditure Funded From Capital	2017/18 Total
	£'000	£'000	£'000
Community & Leisure	8,786	202	8,988
Environmental	600	0	600
Estates & Economic Development	8,867	151	9,018
Housing & Env. Health	0	870	870
IT	33	0	33
Total Expenditure	18,286	1,223	19,509

The table above excludes the capital expenditure on financial instruments which are included in note 31.

22. Cash and Cash Equivalents

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

	2016/17 £'000	2017/18 £'000
Cash held by the Council	6	5
Bank Current Accounts	2,233	4,146
Short-term deposits	6,715	4,488
Total Cash & Cash Equivalents	8,954	8,639

23. Analysis of Debtors

	2016/17 £'000	2017/18		Net £'000
		Debtor £'000	Bad Debt Allowance £'000	
Central Government Bodies	1,581	1,293	0	1,293
Sundry Debtors	6,201	9,383	(1,606)	7,777
Collection Fund	711	1,206	(491)	715
Housing	7	63	(56)	7
Car Leasing and Loans	74	90	(16)	74
Total Debtors	8,574	12,035	(2,169)	9,866

Included within car leasing and loans in the previous table are loans to employees for vehicle purchases. At 31st March 2018, £71,000 (2016/17 - £64,000) was outstanding.

24. Analysis of Creditors

	2016/17 £'000	2017/18 £'000
Sundry Creditors	7,994	7,107
Collection Fund	4,026	4,264
Central Government	1,157	5,180
Section 106 Balances	11,510	15,959
Compensated Absences Accrual	178	178
Total Creditors	24,865	32,688

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 2018/19 that have been received before the end of 2017/18. 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 66 to 69.

The Collection Fund balances are shown in the following table.

	2016/17 £'000	2017/18 £'000
Council's share of Council Tax receipts in advance	115	107
Other preceptors' share of Council Tax movement	1,461	1,274
Council's share of Business Rates' receipts in advance	264	306
Other preceptors' share of Business Rates movement	2,186	2,577
Total Collection Fund balances	4,026	4,264

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.

	2016/17 £'000	2017/18 £'000
Open Spaces / Recreation	6,203	6,883
Highways / Cycle Routes / Green Travel	1,469	4,421
Affordable Housing	455	1,021
Education & Skills' Development	320	415
Public Art	298	437
Community Facilities	2,515	2,435
Other	250	347
Total Section 106 balances	11,510	15,959

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

25. Provisions

The full balance of provisions shown on the Balance Sheet (2017/18 £1.275M; 2016/17 £1.725M) 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.

A new rating list was introduced by the Valuation Office Agency with effect from April 2017.

The provision in respect of outstanding appeals from the 2010 list has been prepared in a similar manner to previous years. The calculation is based on a weighted average of resolved appeals from that list, which is then extrapolated across the remaining appeals outstanding at 31st March 2018. £247,000 of the total provision relates to outstanding appeals against the 2010 list.

Alongside the new rating list, the Valuation Office introduced a new method for businesses to appeal against their rateable value from April 2017; this is known as 'Check, Challenge, Appeal'. At a national level there have been a very low number of appeals that have been resolved. There is, therefore, insufficient evidence to prepare a calculation for 2017 appeals in the same way as for the 2010 list. Inevitably, there will be appeals against the rating list that will be resolved in later years and a provision is required. The Council has assumed a rate of 4.7% of collectible business rates in the year to mirror central government estimations for appeals when the new list and 2017/18 rating multipliers were set. This amounts to a provision of £1.028M in respect of 2017/8.

The following table details the movement in the provision.

	2016/17 £'000	2017/18 £'000
Balance at start of year	901	1,725
Amounts charged to the provision	(487)	(338)
Increase / (decrease) in provision	1,311	(112)
Balance at end of year	1,725	1,275

26. Trust Funds

The Council operates a number of trusts for civic purposes. The balances at the end of the year were £66,000 (2016/17 £70,000). The most significant balance is in respect of the Romsey Walk and Pleasure Ground - £57,000 (2016/17 - £56,000).

27. Notes to the Cash Flow Statement

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

Net Cash inflow from Operating Activities includes:	2016/17 £'000	2017/18 £'000
Interest received	564	528
Interest paid	(2)	0

Other Non-Cash items	2016/17 £'000	2017/18 £'000
Movement in Bad Debt Allowance	(200)	(87)
Movement in provision in respect of Business Rates appeals	824	(450)
Donated assets under s106 agreements	(3,712)	(2,359)
Other non-cash items	(35)	(26)
Other Non-Cash items	(3,123)	(2,922)

Other income / (payments) for financing activities	2016/17 £'000	2017/18 £'000
Movement in Council Tax debtors	(11)	2
Movement in amounts owed to Council Tax preceptors	(128)	(187)
Movement in Business Rates debtors	373	94
Movement in amounts owed to Business Rates preceptors	(1,389)	390
Other income / (payments) for financing activities	(1,155)	299

28. 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.

Reserve	2016/17 £'000	2017/18 £'000
General Fund Balance	2,000	2,000
Revenue & Earmarked Reserves	22,352	23,813
Capital Receipts Reserve	18,658	10,974
Capital Grants Unapplied Reserve	377	1,163
Total Usable Reserves	43,387	37,950

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.

ANNEX 3

	Balance as at 31/03/2016	Transfers In 2016/17	Transfers Out 2016/17	Balance as at 31/03/2017	Transfers In 2017/18	Transfers Out 2017/18	Balance as at 31/03/2018
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Income Equalisation Reserve	355	0	(55)	300	0	0	300
Budget Equalisation Reserve	682	0	0	682	0	0	682
Investment Equalisation Reserve	492	0	(242)	250	0	0	250
Pension Equalisation Reserve	200	0	0	200	0	0	200
Collection Fund Equalisation Reserve	0	3,072	(661)	2,411	1,205	0	3,616
Capacity Building Reserve	160	150	(56)	254	0	(91)	163
Special Projects Reserve	263	55	(66)	252	429	(69)	612
New Homes' Bonus Reserve	5,447	4,798	(2,291)	7,954	4,921	(4,444)	8,431
Asset Management Plan	2,436	1,684	(1,516)	2,604	1,584	(2,341)	1,847
Budget Carry Forward Reserve	215	126	(215)	126	285	(96)	315
Local Authority Business Growth Incentive	6	0	0	6	0	(4)	2
Borough Election Reserve	0	35	0	35	35	0	70
All Risks Self-Insurance Reserve	152	0	0	152	0	(3)	149
Business Support (Floods)	147	0	0	147	0	0	147
Local Development Framework Reserve	76	32	(11)	97	47	(17)	127
Waste Performance & Efficiency Grant	69	0	(31)	38	0	(5)	33
Benefit Reform Reserve	160	0	0	160	0	(26)	134
Developer contribution for future years' maintenance costs	5,450	793	(367)	5,876	401	(472)	5,805
Enterprise and Innovation Reserve	462	0	(46)	416	0	(47)	369
Valley Housing Ltd Reserve	250	0	0	250	0	0	250
Housing Reserve	6	0	0	6	169		175
Other Earmarked Reserves	106	30	0	136	0	0	136
Total Earmarked Revenue Reserves	17,134	10,775	(5,557)	22,352	9,076	(7,615)	23,813

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 £149,000 (2016/17 £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.

	2016/17		2017/18	
	£'000	£'000	£'000	£'000
Balance at start of year		26,132		18,658
Capital Receipts				
Sale of Assets	22		58	
Right to Buy Receipts	921		889	
		943		947
Capital Expenditure				
Purchase of Assets	(8,168)		(8,071)	
Revenue Expenditure funded from Capital Under Statute	(249)		(560)	
		(8,417)		(8,631)
Balance at end of year		18,658		10,974

Capital Grants Unapplied Reserve

The Capital Grants Unapplied Reserve holds the grants and contributions received towards capital projects for which the Council has met the conditions that would otherwise require payment of the monies, but which have yet to be applied to meet expenditure. The balance is restricted by grant terms as to the capital expenditure against which it can be applied.

29. 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.

Reserve	2016/17 £'000	2017/18 £'000
Revaluation Reserve	16,287	17,201
Capital Adjustment Account	148,033	159,603
Deferred Credits	7	7
Collection Fund Adjustment Account	795	1,221
Accumulated Absences Account	(178)	(178)
Pension Fund Reserve	(55,900)	(58,520)
Total Unusable Reserves	109,044	119,334

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 1st 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.

	2016/17		2017/18	
	£'000	£'000	£'000	£'000
Balance at start of year		17,454		16,287
Upward revaluations of assets in the year	421		2,902	
Depreciation of previous years' revaluation gains	(288)		(165)	
Reverse gains on reclassified assets	(1,300)		0	
Reverse gains on assets disposed of in the year	0		(1,823)	
		(1,167)		914
Balance at end of year		16,287		17,201

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.

	2016/17		2017/18	
	£'000	£'000	£'000	£'000
Balance at start of year		135,249		148,033
Adjustment to correct 2016/17 closing balance				510
Transfer from Revaluation Reserve	1,588		1,988	
Revaluation gains / (losses) on Investment Property	(501)		756	
Assets purchased in the year	13,395		18,411	
Capital loan advanced in year	843		199	
Transfer from Capital Receipts Reserve	249		560	
		15,574		21,914
Disposal of assets	(65)		(5,417)	
Repayment of capital loan	0		(34)	
Depreciation of non-current assets	(2,282)		(1,962)	
Amortisation of intangible assets	(56)		(56)	
Impairments	(138)		(2,825)	
Revenue expenditure funded from capital	(249)		(560)	
		(2,790)		(10,854)
Balance at end of year		148,033		159,603

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 66 to 69).

The surplus on the Council Tax part of the Collection Fund at 31st March 2018 was £2.019M, of which the Council's share is £225,000. The surplus in respect of business rates was £1.7M of which the Council's share was £680,000.

The Council is entitled to retain 100% of the business rates collected from Renewable Energy schemes within the Borough. However, any variance to the original budget cannot be treated as income until later years and is therefore transferred to the Collection Fund Adjustment Account. The amount retained at 31st March 2018 which cannot be taken until later years was £316,000.

	2016/17 £'000	2017/18 £'000
Share of Council Tax Surplus b/f	269	246
Movement in the year	(23)	(21)
Share of Council Tax Surplus c/f	246	225
Share of Business Rates' Surplus b/f	1,742	5
Movement in the year	(1,737)	675
Share of Business Rates' Surplus c/f	5	680
Renewable Energy Business Rates retained b/f	23	544
Movement in year	521	(228)
Renewable Energy Business Rates retained c/f	544	316
Balance at end of year	795	1,221

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 14.

30. Net Assets Employed

The net assets (total assets less liabilities) of the Council in total are £157.284M (2016/17 £152.431M). This represents the total equity of the Council.

The net assets figure is net of the deficit on the pension fund of £58.52M (2016/17 £55.9M) (see note 14 above). Without this provision the Council's net assets would be £215.804M (2016/17 £208.331M).

The effect of the pensions reserve is to reduce the Council's net worth by 27.12% (2016/17 – 26.83%).

31. 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 £419,000 (2016/17 £474,000). The difference between this figure and the income shown on the Comprehensive Income & Expenditure Statement relates to other non-investment based income received in the year of £109,000 (2016/17 £90,000).

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 £60.364M (2016/17 £61.03M), plus accrued interest of £133,000 (2016/17 £121,000).

Financial Instrument Balances

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

	31st March 2017		31st March 2018	
	Current £'000	Long-Term £'000	Current £'000	Long-Term £'000
<u>Investments</u>				
Cash & Cash Equivalents	8,954	0	8,639	0
Loans and Receivables	37,349	17,086	38,922	17,086
Unquoted equity investment at cost	0	125	0	250
<u>Debtors</u>				
Sundry Debtors	7,394	266	8,990	769
Housing	63	0	63	0
Car Leasing and Loans	89	0	90	0
<u>Creditors</u>				
Sundry Creditors	(6,039)	0	(5,090)	0

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

The Council has a shareholding in HCB Holding Ltd. The 250 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 2017		31st March 2018	
	Carrying Value	Fair Value	Carrying Value	Fair Value
	£'000	£'000	£'000	£'000
Cash	6	6	5	5
Cash Equivalents	8,948	8,948	8,634	8,634
Deposits with banks and building societies	33,839	33,839	30,911	30,915
Short term Loans and Receivables	3,510	3,512	8,011	8,011
Long term Loans and Receivables	17,086	17,166	17,086	17,111
Total	63,389	63,471	64,647	64,676

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 31st March 2018) 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.

	2016/17 £'000	2017/18 £'000
Investments Brought forward	43,825	54,560
Short term Investments returned in the year	(51,000)	(44,000)
Short Term Investments purchased in the year	49,801	45,551
Long Term Investments purchased in the year	12,000	125
Accrued interest at start of year	(175)	(109)
Accrued interest at end of year	109	131
Investments Carried Forward	54,560	56,258

32. 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 2017). 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.

	Amount at 31st March 2018	Historical Experience of Default	Historical Experience Adjusted for Market Conditions	Estimated Maximum Exposure to Default
	£'000	%	%	£'000
Deposits with Banks and Building Societies	39,545	0.00	0.00	0
Other Loans and Receivables	25,097	0.00	0.00	0
Debtors				
Long Term Debtors	769	0.00	0.00	0
Sundry Debtors	8,990	17.86	17.86	1,606
Housing Debtors	63	88.89	88.89	56
Other Debtors	90	17.78	17.78	16
Total	74,554			1,678

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.

	31st March 2017 £'000	31st March 2018 £'000
Less than three months	796	1,286
Three months to one year	249	214
More than one year	128	111
Total	1,173	1,611

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.

33. 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 9.

Members of the Council have direct control over the Council's financial and operating policies. The amount paid to Councillors is disclosed in note 12. 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 2017/18 £317,100 (2016/17 £285,900) in grants was paid to voluntary organisations in which eight 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.

34. Group Accounts

On 30th April 2016, Valley Housing Limited, a Housing Development and Management Company which is a wholly owned subsidiary of Test Valley Borough Council was incorporated.

Group accounts have not been prepared for the year ended 31st March 2018 as the value of transactions between Test Valley Borough Council and Valley Housing Limited is not considered to be material.

35. 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 2017/18 the income generated from this source was £889,000 (2016/17 £921,000). The generation of this income is outside of the Council's control and is not quantifiable for future years.

36. Contingent Liabilities**Large Scale Voluntary Transfer (LSVT)**

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 19th 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 28th 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 13th 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 16th 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 was shown in non-distributed costs in the Comprehensive Income and Expenditure Statement for the year ended 31st March 2016. No indications have been given as to whether future levies will be necessary. The Council's maximum remaining liability is £228,000.

37. Events After the Balance Sheet Date

There are no material events after the balance sheet date which would have a material effect on the accounts for 2017/18.

38. Date Accounts Authorised for Issue

The pre-audited Statement of Accounts was authorised for issue by the Head of Finance on 31st May 2018.

The audited Statement of Accounts was approved by the General Purposes Committee on 30th July 2018.

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				
	2016/17		2017/18	
	£'000	£'000	£'000	£'000
COUNCIL TAX				
Opening Balance		2,381		2,175
<u>Income</u> Council Tax		69,386		73,857
<u>Expenditure</u>				
Hampshire County Council	50,121		53,613	
Hampshire Fire Authority	2,907		3,021	
Hampshire Police and Crime Commissioner	7,452		7,829	
Test Valley Borough Council	6,403		6,747	
Parishes	1,344		1,403	
Payments to preceptors in respect of previous surpluses	1,210		1,170	
Increase in Bad Debt Allowance	155		230	
Total Expenditure		69,592		74,013
Council Tax Deficit For The Year		(206)		(156)
Closing Balance		2,175		2,019
BUSINESS RATES				
Opening Balance		4,354		13
<u>Income</u> Business Ratepayers		51,979		54,706
<u>Expenditure</u>				
Central Government	24,708		25,646	
Hampshire County Council	4,447		4,616	
Hampshire Fire Authority	494		513	
Test Valley Borough Council	19,766		20,517	
Payments to preceptors in respect of forecast surplus	3,100		1,586	
Increase/(reduction) in provision for backdated appeals	2,059		(1,125)	
Transitional Protection Payments due to Central Govt	474		207	
Increase in Bad Debt Allowance	515		196	
Cost of Collection Allowance	189		188	
Amount retained in respect of renewable energy schemes	568		675	
Total Expenditure		56,320		53,019
Business Rates' Surplus / (Deficit) For The Year		(4,341)		1,687
Closing Balance		13		1,700
COLLECTION FUND SUMMARY				
Surplus / (Deficit) for the year		(4,547)		1,531
Balance at the start of the year		6,735		2,188
Surplus at the end of year		2,188		3,719

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 47.9p in 2017/18.

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
- Rural Rate Relief
- Revaluation and Supporting Small Businesses Reliefs introduced in 2017
- Empty Property Reliefs and
- Bad debts

The total non-domestic rateable value at the 31st March 2018 was £136,808,048.

The Collection Fund balance on the 31st March 2018 in respect of Non Domestic Rates (NDR) was a surplus of £1.700M 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 2018/19 and 2019/20.

The payments to the major preceptors in 2017/18 are shown in the following table.

Non Domestic Rates Collection Fund				
2016/17				2017/18
Total	Major Preceptors	Precept	Share of 2016/17 Forecast Surplus	Total
£'000		£'000	£'000	£'000
26,258	Central Government	25,646	793	26,439
4,726	Hampshire County Council	4,616	143	4,759
525	Hampshire Fire Authority	513	16	529
21,006	Test Valley Borough Council	20,517	634	21,151
52,515	Total	51,292	1,586	52,878

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 47,315 for 2017/18.

The Collection Fund balance on the 31st March 2018 in respect of Council Tax was a surplus of £2.019M 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 11.22% for 2017/18 and 11.03% for 2018/19) and will be included in the Council Tax calculations for 2018/19 and 2019/20.

The payments to the major preceptors in 2017/18 are shown in the following table.

Council Tax Collection Fund				
2016/17	2017/18			
	Major Preceptors	Precept	Share of 2016/17 Surplus	Total
£'000		£'000	£'000	£'000
51,008	Hampshire County Council	53,613	860	54,473
2,959	Hampshire Fire Authority	3,021	50	3,071
7,587	Hampshire Police & Crime Commissioner	7,829	127	7,956
6,539	Test Valley Borough Council	6,747	133	6,880
68,093	Total	71,210	1,170	72,380

COUNCIL TAX BASE - ANALYSIS OF PROPERTIES

BAND	A*	A	B	C	D	E	F	G	H	TOTAL
Full Charge	0	1,074	4,654	9,219	7,311	6,471	3,992	3,059	438	36,218
10% Discount	0	0	0	0	0	0	0	0	0	0
25% Discount	0	1,424	4,149	4,326	2,556	1,544	685	505	42	15,231
50% Discount	1	73	9	9	9	10	16	20	3	150
100% Exempt	0	146	121	537	239	113	86	52	5	1,299
50% Premium	0	10	9	7	3	4	2	1	0	36
Net Adjustment for Properties Charged at a Lower Band	0	22	51	(6)	(7)	(32)	13	(27)	(14)	0
Total Number of Properties	1	2,749	8,993	14,092	10,111	8,110	4,794	3,610	474	52,934
Chargeable Number of Properties	1	2,625	8,923	13,549	9,865	7,965	4,721	3,531	455	51,635
Equivalent Number of Properties after discounts, exemptions, premiums and disabled relief	1	2,218	7,841	12,407	9,189	7,547	4,523	3,383	440	47,547
Ratio to Band D	5/9	6/9	7/9	8/9	1	11/9	13/9	15/9	2	
Band D Equivalents	0	1,478	6,098	11,028	9,189	9,224	6,533	5,639	880	50,069
Provision for Council Tax Support										(3,155)
Provision for Bad Debts										(358)
Crown Contributions										759
Total Band D Equivalents										47,315

GLOSSARY OF TERMS

Accounting Period	The period of time covered by the accounts, normally a period of twelve months, commencing on 1 st April for local authority accounts.
Accruals	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.
Actuarial Gains & Losses	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"> - events have not coincided with the actuarial assumptions made for the last valuation (experience gains and losses) - the actuarial assumptions have changed.
Assets	Items of worth which are measurable in terms of value.
Bad Debt Allowance	An allowance that is made against income that is due to the Council that it is considered is unlikely to be recovered.
Balances	The reserves of the Council, both revenue and capital, which represent the accumulated surplus of income over expenditure on any of the funds.
Business Rates	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 st April 2013, the Council retains a proportion of the rates collected.
Capital Expenditure	Expenditure on the acquisition or improvement of tangible assets which yield benefits to the Council for more than one year.
Capital Receipts	Monies received from the sale of non-current assets, which may be used to finance new capital expenditure.
Cash and Cash Equivalents	Cash and deposits held in banks that are readily convertible into known amounts of money without penalty or time delays.
Collection Fund	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.
Contingent Assets	Future income owed to the Council arising from a past event for which the amounts cannot be accurately quantified at the balance sheet date.
Contingent Liabilities	Amounts potentially payable to individuals or organisations which may arise in the future but which at this time cannot be determined accurately.
Contingent Rent	A rental income that is based on performance. This could be as a % of turnover of net profit.
Creditors	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.
Current assets	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).
Current Service Cost	The increase in the present value of the pension scheme liabilities expected to arise from employee service in the current period.
Debtors	Amounts owed for work or services rendered by the Council within the financial year which were not paid by the year end.
Depreciated Replacement Cost	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.

Depreciation	The measure of the wearing out, consumption, or other reduction in the useful economic life of a fixed asset.
Effective Interest Rate	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.
Expenditure	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.
Fair Value	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.
Financial Instruments	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.
General Fund	This is the main revenue fund of the Council includes the net cost of all services financed by local taxpayers and government grants.
Heritage Assets	Assets held primarily for their historical, artistic, scientific, technological, geophysical or environmental qualities and maintained for their contribution to knowledge and culture.
IFRS	International Financial Reporting Standards are the guidelines within which the Council's accounts have to be prepared.
Impairment of Assets	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.
Income	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.
Intangible Assets	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.
Inventories	Stocks and work-in-progress are included under this heading.
Investment Property	Properties owned by the Council which are held solely for income generation purposes or for appreciation in sale value.
Leases	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.
Liabilities	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.
Non-Current Assets	Assets which are owned by the Council which have a useful life of more than one year.
Past Service Cost	Discretionary benefits awarded on early retirement are treated as past service costs.
Precepts	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.
Present Value	The current estimated value of future assets or liabilities taking into account the estimated effects of the time value of money.
Property Plant and Equipment	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.
Asset under Construction	Assets that are not yet completed.
Provision	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.
Reserves	
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.
Revenue Contributions to Capital	The method of financing capital expenditure directly from the General Fund.
Revenue Expenditure	Expenditure incurred on the day to day running of the Council. This mainly includes employee costs, general running expenses and contract payments.
Revenue Expenditure Funded From Capital Under Statute	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.
Revenue Support Grant	This is a Central Government Grant paid each year as a contribution towards the cost of the Council's services in general.

Test Valley Borough Council

Annual Governance Statement 2017/18

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 2018 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.

- 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 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.
- Members of OSCOM undertake task and finish panel reviews. Once an area for review has been identified, the lead member/chairman of the panel presents the draft scoping document for the review to the full committee for consideration. A full report is then subsequently presented to OSCOM once the review has been completed or reached an appropriate stage. This process has ensured more effective and focused reviews and a clear line of responsibility to the main committee. 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.

- 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 General Purposes Employment Appeals and 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 revised in 2017. 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. Ongoing training is provided for both Members and officers. Equality impact assessments are built into the Council's decision-making process. The Council has reviewed its corporate equalities objectives, alongside its duties under the new gender pay gap publication requirements. The Council continues to deliver training on the Equality Act 2010 to new members of staff and to Members. The Council published information that demonstrates compliance with the Equality Duty as defined by the Equality Act 2010 on its website in March 2018. (<https://www.testvalley.gov.uk/aboutyourcouncil/corporatedirection/equality---diversity/equalities>).
- 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, Young People and Vulnerable Adults policy and procedure 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 2017 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 Finance 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 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 has responsibilities under section 5 of the Local Government and Housing Act 1989 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 councillors' training needs. The Council has a cross-party Member and Community Development Group which is supported by officers from a range of services. This Group has continued to work to promote an enhanced role for councillors that focusses on them acting as a catalyst for change to encourage communities to reach their full potential. This work has brought together the needs and expectations of our communities in order to make balanced decisions, and has ensured a culture of democratic accountability is embraced throughout the Council. The Group enables the Council to develop

a programme of councillor training and development that is shaped by the councillors themselves ensuring that training and development activities offered are tailored to individual councillor needs as well as the needs of councillors generally, the council and communities. This work has been shared with the Councillor Commission and has become a key part of the ongoing work that supports this national project.

- All new councillors are provided with induction training to assist them with understanding and successfully carrying out their different roles, with an ongoing programme of training and development provided on specific issues where appropriate e.g. planning, and to build key skills and knowledge.
- 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 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 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. During 2017/18, the Constitution was thoroughly reviewed to make it more accessible and user-friendly, and to bring it up to date. The amended version was approved by Council on 24th January 2018 and is available on the Council's website at:

<http://www.testvalley.gov.uk/aboutyourcouncil/localdemocracy/constitution>

- 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 General Purposes Employment Appeals and 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 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 General Purposes Employment Appeals and 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 2017/18, 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 Audit Letter](#) to Members, the latest available covering the financial year 2016/17. 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
<p>Corporate training and awareness is required on the implications of the General Data Protection Regulation (GDPR). This to build on the project work undertaken in 2017/18 to ensure compliance with the GDPR and the implementation of the Council's revised Document Retention Policy.</p>	<p>A staff Learning Session on GDPR to be held to inform management of the achievements of the GDPR project to date and to consider further:</p> <ul style="list-style-type: none"> • What the principles are. • How these impact the Council. • What the challenges are for Services including implementation of their revised document retention schedules. • How best to maintain corporate awareness, support the Service Representatives and ensure a consistent approach. • The provision of further staff training on the implications of GDPR in terms of document retention, data protection and freedom of information. 	<p>31/05/18</p>	<p>Carol Moore Corporate Director</p>
<p>Although informally undertaken in the past, there is currently no formalised system in place to capture the lessons learnt from large scale projects which would include the consideration of a lessons learnt report by the Officers Management Team.</p>	<p>A formalised learning session to be held to review the lessons learnt as an aid to future major projects, the first being the Leisure Contract.</p>	<p>30/06/18</p>	<p>Andy Ferrier Corporate Director</p>