

Notice of Meeting

General Purposes Committee

Date: Tuesday 30 July 2019

Time: 4.00 pm

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

For further information or enquiries please contact:

Caroline Lovelock - 01264 368014
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

Councillor K Hamilton (Chairman)

Councillor K North (Vice-Chairman)

Councillor N Adams-King

Councillor D Baverstock

Councillor Z Brooks

Councillor S Cross

Councillor K Farrer

Councillor M Flood

Councillor N Gwynne

Councillor I Jeffrey

Councillor P North

WARD

Andover Harroway

Andover Romans

Blackwater

Romsey Cupernham

Andover Millway

North Baddesley

Andover St Mary's

Anna

Romsey Cupernham

Mid Test

Bourne Valley

General Purposes Committee

Tuesday 30 July 2019

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 May 2019**
- 6 Minutes of the Employment Appeals and Ethics Sub-
Committee held on the 27 March 2019 and 10 July
2019**
- 7 Statement of Accounts 2018/2019 4 - 149**

To present Ernst & Young's Annual Audit Results report,
and to approve the 2018/19 Statement of Accounts.

ITEM 7

Statement of Accounts 2018/19

Report of the Head of Finance

Recommended:

1. **Ernst & Young's Annual Audit Results Report (Annex 1):**
 - a. **That the matters raised in the report be considered before authorising the financial statements for issue,**
 - b. **That the proposed audit opinion and value for money conclusion be noted.**
2. **That the letter of representation (Annex 2) be approved.**
3. **That the audited Annual Statement of Accounts for the financial year 2018/19 (Annex 3) be approved.**

SUMMARY:

- The Council is required to prepare an Annual Statement of Accounts and have those accounts audited. This report presents the audited Annual Statement of Accounts for approval together with the Annual Audit Results Report of the Council's external auditors, Ernst & Young.
- The Statement of Accounts is presented with an unqualified opinion; this means the auditors 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 2019 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 2018/19 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 2019. 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 and an increase in the pension liability valuation following the receipt of a revised actuarial report. 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 June 2019 (Minute 84 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 2018/19.

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 Flood			
Officer:	Will Fullbrook	Ext:	8201
Report to:	General Purposes Committee	Date:	30 July 2019

**Test Valley Borough
Council**
Audit results report
Year ended 31 March 2019

July 2019

18 July 2019



Dear Audit Panel and General Purposes Committee Members

We are pleased to attach our audit results report for the forthcoming meetings of the Audit Panel and General Purposes Committee. This report summarises our preliminary audit conclusion in relation to the audit of Test Valley Borough Council for 2018/19.

We have substantially completed our audit of Test Valley Borough Council for the year ended 31 March 2019.

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 of this report, before the accounts publication deadline of 31 July 2019. 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 and General Purposes Committee meetings on 25 July and 30 July 2019.

Yours faithfully

Kevin Suter

Associate Partner

For and on behalf of Ernst & Young LLP

Encl

Contents

01 Executive Summary



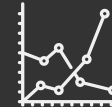
02 Areas of Audit Focus



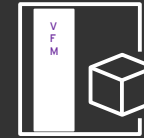
03 Audit Report



04 Audit Differences



05 Value for Money



06 Other reporting issues



07 Assessment of Control Environment



08 Data Analytics



09 Independence



10 Appendices

Public Sector Audit Appointments Ltd (PSAA) have issued a 'Statement of responsibilities of auditors and audited bodies'. It is available from the Chief Executive of each audited body and via the PSAA website (www.psa.co.uk).

This 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 April 2018)' issued by PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and statute, and covers matters of practice and procedure which are of a recurring nature.

This Audit Results Report is prepared in the context of the Statement of responsibilities / Terms and Conditions of Engagement. It is addressed to the Members of the audited body, and is prepared for their sole use. We, as appointed auditor, take no responsibility to any third party.

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



01 Executive Summary



Executive Summary

Scope update

In our audit planning report presented at the 11 March 2019 Audit Panel and the 17 April 2019 General Purposes Committee meetings, 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 £1,491,000, with performance materiality, at 75% of overall materiality, of £1,118,000, and a threshold for reporting misstatements of £75,000. We updated our assessment using the unaudited Statement of Accounts, and amended the values to £1,368,000 materiality, £1,026,000 performance materiality, and £68,420 threshold for reporting misstatements that have an effect on the primary statements (comprehensive income and expenditure statement, balance sheet, movement in reserves statement, cash flow statement and collection fund). The basis of our assessment has remained consistent with prior years at 2% of gross expenditure on provision of services.

Status of the audit

At the time of writing this report, the procedures outlined in our Audit Planning Report were ongoing. Subject to satisfactory completion of our procedures, we expect to issue an unqualified opinion on the Authority's financial statements in the form which appears at Section 4. However until all work is complete, further amendments may arise. Outstanding items include:

- Receipt and review of estimated indexation movements from 1 April 2018 to 31 March 2019 on Land and Buildings not included in the annual cycle of valuations this year - to support completion of valuations testing;
- Reconciliation of Property, Plant and Equipment disclosures to the supporting subledgers;
- Pension Liability testing and review of revised IAS19 report from the actuary received on 15 July 2019. Testing of actuarial calculations, assumptions and subsequent amendments to financial accounting;
- Receipt and review of letters of assurance from the Monitoring Officer; those charged with governance; and the auditors of Hampshire Pension Fund;
- Receipt and review of IFRS9 and IFRS15 impacts assessments;
- Receipt and review of revised draft accounts, reflecting all accounting and disclosure adjustments to date and Authority-led updates made to the Annual Governance Statement;
- Completion of procedures required by the NAO to review and report on the Whole of Government Accounts return; and
- EY Manager and Associate Partner review of audit working papers.



Executive Summary

Audit differences

As at the date of drafting this report:

- There were no unadjusted audit differences identified from our work.
- There are no unadjusted audit differences to bring to your attention.

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. We summarise our consideration of these matters, and any others identified, in the "Key Audit Issues" section of this report.

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

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

There are no matters, apart from those reported by management or disclosed in this report, which we believe should be brought to the attention of the Audit Committee.



Executive Summary

Control observations

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

An external assessment of the internal audit function was carried out in April 2019. This assessment highlighted areas of non-conformance with Public Sector Internal Audit Standards (PSIAS) in a number of significant areas: Assurance Mapping; Strategic Framework; Resources; Audit Universe; and Audit Plan. As a result, although the Authority's Head of Internal Audit was able to provide Substantial Assurance on the effectiveness of the control framework and governance processes at Test Valley Borough Council for 2018-19, this opinion notes that it is qualified as a result of the PSIAS assessment.

A 32-Point Action Plan has been prepared by Test Valley Borough Council to address the PSIAS findings. The Action Plan addresses seven areas requiring attention: Audit Manual; Reporting; Performance; Charter and Strategy; Universe and Plan; Quality Assurance; and Improvement Plan.

We note that while non-conformance was noted in significant areas by the PSIAS assessor, the positive impact the Internal Audit team has on the organisation and the value placed on it by the officers interviewed/consulted was also noted. In addition, three areas of good practice were noted in relation to Risk Management, Corporate Performance Management and individual Audit Assignment Reporting.

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. In our Audit Planning Report we identified the following significant risk: Proposed purchase of 60% leasehold interest in The Chantry Centre (Informed Decision Making).

From our review of the detailed proposals put to Cabinet and Full Council and the professional advice that supported them; the timeliness and openness of discussion before decision-making; and of the financing arrangement ultimately adopted, we were satisfied that there are 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.

At the time of writing this report, procedures required by the National Audit Office (NAO) on the Whole of Government Accounts submission were still ongoing.

We have no other matters to report.

Independence

Please refer to Section 09 for our update on Independence.



02 Areas of Audit Focus





Areas of Audit Focus

Significant risk

**Risk of fraud in revenue and expenditure recognition -
Incorrect capitalisation of revenue expenditure**

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.

There is incentive for incorrectly classifying revenue expenditure as capital. Capitalising would remove the expenditure from the General Fund and Council Tax funding, and give opportunity for funding through capital grants, receipts or even borrowing.

There is material opportunity as the Council's capital programme for 2018/19 is significantly above our level of materiality.

What judgements are we focused on?

As part of our work we tested additions of £23,257,000 to Property, Plant and Equipment to confirm they met the criteria required for capitalisation. This included testing additions of £9,401,000 to Other Land and Buildings and of £11,312,000 to Assets under Construction. We also tested the judgements as to when Assets Under Construction (the new Andover Leisure Centre) came into use and could be reclassified as Other Land and Buildings and the judgements surrounding reclassifying the Chantry Centre Investment Property of £4,652,000 as an economic regeneration asset.

What did we do?

We :

- ▶ Reviewed and sample tested capital expenditure to ensure it met the relevant accounting requirements to be capitalised.
- ▶ Reviewed a sample of journals moving expenditure from revenue to capital codes.
- Confirmed that the new Andover leisure centre came into use at midnight on 31 March 2019.
- Confirmed that, upon acquisition of an additional 60% share of the leasehold interest in The Chantry Centre, the centre was designated by the Authority for inclusion within regeneration plans for Andover as a whole.

What are our conclusions?

From our testing we found no evidence of revenue expenditure being incorrectly capitalised. We also found no evidence of assets being incorrectly classified within Property, Plant and Equipment.





Areas of Audit Focus

Significant risk

Misstatements due to fraud or error

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) 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.

What judgements are we focused on?

As part of our work we focused on the key judgemental areas of financial statements, such as accounting policies; unusual transactions; and the key accounting estimates.

What did we do?

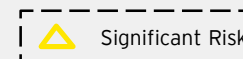
- ▶ Inquired of management about risks of fraud and the controls put in place to address those risks;
- ▶ Understood the oversight given by those charged with governance of management's processes over fraud;
- ▶ Considered the effectiveness of management's controls designed to address the risk of fraud;
- ▶ Performed mandatory procedures regardless of specifically identified fraud risks, including:
 - ▶ Reviewed estimates for any management bias,
 - ▶ Reviewed significant and unusual transactions that were outside the normal course of business;
 - ▶ Tested journal entries and other adjustments in the preparation of the financial statements.

What are our conclusions?

Our audit work found no evidence that management had attempted to override internal controls. This conclusion is based on detailed testing of accounts entries susceptible to potential manipulation.

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

Valuation of land and buildings

What was the risk?

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 and £106,836,000. Movements during 2017/18 included valuation changes, impairment reviews and depreciation charges.

Management is required to use material judgemental inputs and apply estimation techniques to calculate the year-end balances recorded in the balance sheet. During last year's audit EY real estate specialists challenged methodologies around buildings costs data, treatment of professional fees, asset life and land value assumptions, and treatment of voids and purchaser costs. Although the overall net impact on valuations was not material (£10,889), there were higher value differences behind the net impact (£289,318 gain off-set by an increase in impairment costs of £300,207).

The valuation date for 2018/19 will be 31 January 2019 and most assets will be valued by the Council's internal valuations team, as in 2017/18. The Council has noted a "caveat" for Brexit. We note that the roll forward of valuations to year end will be particularly important this year as the UK leaves the European Union which may increase volatility.

What did we do?

- ▶ Considered the work performed by the Council's valuers, including any changes in their approach since last year's audit; the adequacy of the scope of the work performed; their professional capabilities; and the results of their work;
- ▶ Sample tested key asset information used by the valuers in performing their valuation (e.g. floor plans to support valuations based on price per square metre);
- ▶ Considered the annual cycle of valuations to ensure that assets have been valued within a 5 year rolling programme as required by the Code for PPE and annually for IP. We will also consider if there are any specific changes to assets that have occurred and whether these are reflected in valuations;
- ▶ Considered changes to useful economic lives as a result of the most recent valuation;
- ▶ Reviewed the effectiveness of arrangements for rolling forward valuations to the year end; and
- ▶ Tested accounting entries have been correctly processed in the financial statements;

We have no findings to bring to your attention from this work.

At the time of drafting our report the following procedures were ongoing:

- Reviewing assets not subject to valuation in 2018/19 to confirm that the remaining asset base is not materially misstated;

We will provide an update to the Panel and Committee if there are any significant findings arising from this work.



Other Areas of Audit Focus

Pension Liability Valuation

What was the risk?

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.

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 the net liability totalled £58,520,000.

Accounting for this scheme involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf. ISAs (UK) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.

We note that in 2017-18 we identified an 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.

What did we do?

- ▶ 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;
- ▶ Reconciled IAS19 data provided by the actuary to the financial statements;
- ▶ Reviewed and tested the accounting entries and disclosures made within Test Valley Borough Council's financial statements in relation to IAS19.

We have no findings to bring to your attention from this work.

The net Pension Liability was valued at £51,540,000 by Aon in their IAS19 Accounting Summary to Test Valley Borough Council.

However, a national issue has resulted in a relatively late change to the District Council accounts and IAS19 disclosures. It relates to legal rulings regarding age discrimination arising from public sector pension scheme transitional arrangements, commonly described as the McCloud ruling. The unaudited Statement of Accounts recognised this matter as a contingent liability. However, since the year-end there has been additional evidence, including the ruling by the Supreme Court on 27th June 2019 which denied the Government's leave to appeal, which suggested that the amounts should in fact be treated as a constructive obligation and so included in the IAS19 liability disclosed within the financial statements. On 15 July 2019, a revised actuarial report was issued by Aon restating this to £53,160,000

The increase in the overall value of the defined benefit liability will be reflected in a revised version of the accounts, and work to ensure the correct adjustment is ongoing as at the date of drafting this report.



Other Areas of Audit Focus

New Accounting Standards

What was the risk?

IFRS 9 financial instruments

This new accounting standard is applicable for local authority accounts from the 2018/19 financial year and will change:

- How financial assets are classified and measured;
- How the impairment of financial assets are calculated; and
- The disclosure requirements for financial assets.

There are transitional arrangements within the standard; and the 2018/19 Cipfa Code of practice on local authority accounting provides guidance on the application of IFRS 9.

IFRS 15 Revenue from contracts with customers

This new accounting standard is applicable for local authority accounts from the 2018/19 financial year.

The key requirements of the standard cover the identification of performance obligations under customer contracts and the linking of income to the meeting of those performance obligations.

The 2018/19 Cipfa Code of practice on local authority accounting provides guidance on the application of IFRS 15 and includes a useful flow diagram and commentary on the main sources of LG revenue and how they should be recognised.

The impact on local authority accounting is likely to be limited as large revenue streams like council tax, non domestic rates and government grants will be outside the scope of IFRS 15. However where that standard is relevant, the recognition of revenue will change and new disclosure requirements introduced.

What did we do?

At the time of writing this report, impact assessment papers for both new IFRS were still awaited. The authority's implementation arrangements will be considered after these have been received. Neither standard is expected to have a material impact on the Authority's accounts.

However, we are able observe that:

- From our overall review of the unaudited Statement of Accounts and work on the disclosure checklist that the presentation and disclosure of Financial Instruments appears to be materially consistent with our understanding of the Council's assets and liabilities, and meets the new requirements under IFRS9; and
- Our testing on income and contracts of the Council has not identified any material impact of IFRS15.



03 Audit Report



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 2019 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,
- The related notes 1 to 38 and the Expenditure & 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 2018/19.

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 2019 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 2018/19.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the Authority 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 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 2018/19, other than the financial statements and our auditor's report thereon. The Head of Finance is responsible for the other information.

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



Audit Report

Our opinion on the financial statements

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

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 2019.

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.



Audit Report

Our opinion on the financial statements

Responsibility of the Head of Finance

As explained more fully in the Statement of Responsibilities for the Statement of Accounts 2018/19 set out on page 11, 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 2018/19, and for being satisfied that they give a true and fair view.

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.



Audit Report

Our opinion on the financial statements

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 C&AG in November 2017, as to whether the Test Valley Borough Council had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The C&AG determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether Test Valley Borough Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.

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.

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



04 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 have no misstatements greater than £68,420 which have been corrected by management that were identified during the course of our audit:

There were no uncorrected misstatements.



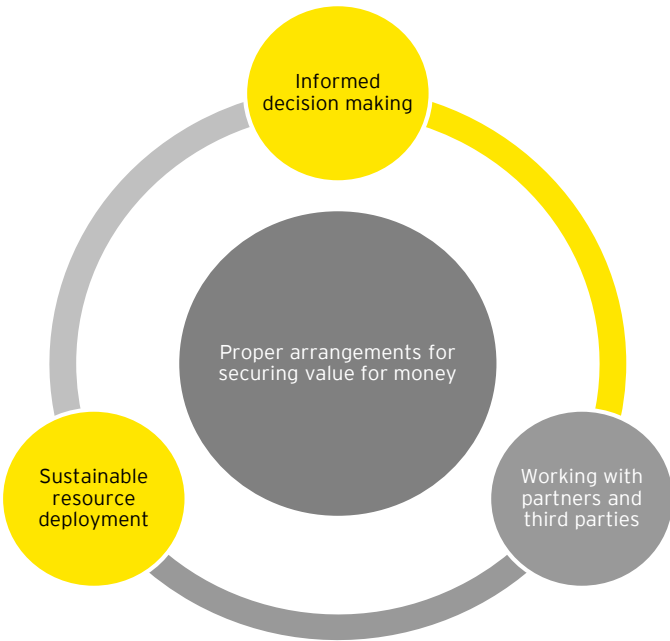
05

Value for Money Risks



Value for Money

Page 28



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 2018/19 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 identified one significant risks around these arrangements (Purchase of 60% Leasehold Interest in The Chantry Centre). The table below presents our findings in response to the risk in our Audit Planning Report.

From completion of our procedures in the table below, we have no matters to report about your arrangements to secure economy, efficiency and effectiveness in your use of resources.



What was the significant value for money risk?

The Council is considering a proposal to purchase for £7,200,000 that part of the Chantry Centre (60%) which it does not own. A detailed paper is expected to be put before Full Council in March 2019 (subject to full information having been received from the vendor).

The s151 officer has previously reported that he did not recommend the purchase of the Centre as an investment opportunity. However, our understanding is that social benefits (the chance to promote town centre regeneration) have also been put forward as considerations. A formal Regeneration Plan had not yet been produced at the time of writing this plan but we understand that due diligence is on-going.

What arrangements does the risk affect?

Informed Decision Making

What did we find?

The Council spent some £140,000 on a series of due diligence advice pieces from legal advisors; financial and tax advisors; and real estate specialists. The Council in turn commissioned a technical review of valuations received. We reviewed the advice received.

A full report was presented to Cabinet and Full Council on 13th March 2019, summarising the professional advice received; the risks and rewards of purchasing the 60% leasehold interest; and the advantages and disadvantages of a series of financing options.

The report noted that, given wider economic factors, "some significant risks related to this purchase which has the capacity to damage the Council's financial standing in the longer term. However, it is the recommendation of the Leader of the Council and the Finance Portfolio Holder that, despite the disadvantages and financial risks of Option D, it is the only option that will guarantee that the Council has the opportunity to achieve its objectives of supporting the economic growth and regeneration of Andover town centre. It is therefore for Members to decide, having weighed up all of the information presented to them, whether the risks are worth taking".

The leasehold interest was purchased in March 2019 and capitalised as Other Land and Buildings within Property, Plant and Equipment. To protect the Council's exposure to the risks of taking out high value loans, a decision was taken to fund the purchase from the sale of The Columbus Quarter on 19th June 2019 and from drawdown of funds from The New Homes Bonus Reserve.

From our review of the detailed proposals put to Cabinet and Full Council and the professional advice that supported them; the timeliness and openness of discussion before decision-making; and of the financing arrangement ultimately adopted, we were satisfied that appropriate arrangements had been made to secure economy, efficiency and effectiveness in your use of resources.



06 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.

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 2018/19 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 are currently concluding our work in this area, but expect to have no matters to report as the Council is below the threshold established by the National Audit Office to detailed audit procedures.

Other reporting issues

Other reporting issues

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 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;
- Findings and issues around the opening balance on initial audits (if applicable);
- Related parties;
- External confirmations;
- Going concern; and
- Consideration of laws and regulations.

At the time of writing this report, there are no matters to note.



07

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. However, we note that:

An external assessment of the internal audit function was carried out in April 2019. This assessment highlighted areas of non-conformance with Public Sector Internal Audit Standards (PSIAS) in a number of significant areas: Assurance Mapping; Strategic Framework; Resources; Audit Universe; and Audit Plan. As a result, although the Authority's Head of Internal Audit was able to provide Substantial Assurance on the effectiveness of the control framework and governance processes at Test Valley Borough Council for 2018-19, this opinion notes that it is qualified as a result of the PSIAS assessment.

A 32-Point Action Plan has been prepared by Test Valley Borough Council to address the PSIAS findings. The Action Plan addresses seven areas requiring attention: Audit Manual; Reporting; Performance; Charter and Strategy; Universe and Plan; Quality Assurance; and Improvement Plan. We note that the audit plan for 2019/20 had already been created based on the existing audit universe which, following the assessment has been declared as inadequate. Therefore it is not expected to be possible in the 2019/20 Audit Opinion to confirm that the Authority produced an audit plan which encompassed the key risks facing the council. However, by way of mitigation to this, the key fundamental system audits (Council Tax, Payroll, Creditors and Debtors) will be conducted under the proposed new Risk based Auditing model.

For 2019-20, we note that while non-conformance was noted in significant areas by the PSIAS assessor, the positive impact the Internal Audit team has on the organisation and the value placed on it by the Officers interviewed/consulted was also noted. In addition, three areas of good practice were noted in relation to Risk Management, Corporate Performance Management and individual Audit Assignment Reporting.



08 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 2018/19, 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.



09

Independence

Confirmation

We confirm that there are no changes in our assessment of independence since our confirmation in our audit planning report issued on 26 February 2019.

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 you and your Audit Panel and General Purposes Committee 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 meetings of the Audit Panel and General Purposes Committee on 25th and 30th July.

We confirm we have undertaken no non-audit work outside the NAO Code requirements.

Independence



Relationships, services and related threats and safeguards



The FRC Ethical Standard requires that we provide details of all relationships between Ernst & Young (EY) and your Authority, and its directors and senior management and its affiliates, including all services provided by us and our network to your Authority, 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 2019 to the date of this report, which we consider may reasonably be thought to bear on our independence and objectivity.

Services provided by Ernst & Young

Page 35 of this report includes a summary of the fees that you have paid to us in the year ended 31 March 2019 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.

Independence

Fee analysis

As part of our reporting on our independence, we set out below a summary of the fees paid for the year ended 31 March 2019.

We confirm that we have not undertaken non-audit work outside the NAO Code requirements other than HB certification. We have adopted the necessary safeguards in completing this work and complied with Auditor Guidance Note 1 issued by the NAO.

	Fin18al Fee 2018/19	Planned Fee 2018/19	Scale Fee 2018/19	Final Fee 2017/18
	£	£	£	£
Total Audit Fee - Code work	40,679	40,679	40,679	52,830
Non-audit work (HB certification)	0	0	0	10,980
Total non-audit services	0	0	0	10,980







10 Appendices

Appendix C

Required communications with Those Charged with Governance

There are certain communications that we must provide to the Those Charged with Governance 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
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified.	Audit planning report
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

Appendix C

		Our Reporting to you
Required communications	What is reported?	When and where
Going concern	<p>Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:</p> <ul style="list-style-type: none"> ▶ 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
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 subsequent events have been identified that would impact either individually or together on Test Valley Borough Council's financial statements as at 31 March 2019
Fraud	<ul style="list-style-type: none"> ▶ Enquiries of the audit committee 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 Audit Panel and General Purposes Committee responsibility. 	Audit results report. No issues to report.

Appendix C

		Our Reporting to you
Required communications	What is reported?	When and where
Related parties	<p>Significant matters arising during the audit in connection with the Authority's related parties including, when applicable:</p> <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 	<p>Audit results report.</p> <p>No matters to report.</p>
Independence	<p>Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence.</p> <p>Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as:</p> <ul style="list-style-type: none"> ▶ 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 <p>Communications whenever significant judgments are made about threats to objectivity and independence and the appropriateness of safeguards put in place.</p>	<p>Audit planning report and</p> <p>Audit results report</p>

Appendix C

		Our Reporting to you
Required communications	What is reported?	When and where
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 Panel and General Purposes 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 Panel and General Purposes 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. Notes that an action plan needs to be implemented to address gaps in required internal audit standards. No other significant deficiencies were identified.

Appendix C

		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
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. No issues to report.
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
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 Audit Results Report

Management representation letter

Management Representation Letter

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

Kevin Suter
Ernst & Young
Wessex House
Threefield Lane
Southampton
SO14 3QB

This letter of representations is provided in connection with your audit of the financial statements of Test Valley Borough Council ("the Council") for the year ended 31 March 2019. 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 Council financial position of Test Valley Borough Council as of 31 March 2019 and of its income and expenditure for the year then ended in accordance with *the* CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.

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 2018/19.
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 2018/19, and are free of material misstatements, including omissions. 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.

Management representation letter

Management Representation Letter

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 2018/19, that are free from material misstatement, whether due to fraud or error.
5. There are no unadjusted audit differences identified during the current audit and pertaining to the latest period presented.

B. 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.
4. We have no knowledge of any identified or suspected non-compliance with laws or regulations, including fraud that may have affected the Council (regardless of the source or form and including without limitation, any allegations by "whistleblowers"), including non-compliance matters:
 - involving financial statements;
 - related to laws and regulations that have a direct effect on the determination of material amounts and disclosures in the Council's financial statements;

- related to laws and regulations that have an indirect effect on amounts and disclosures in the financial statements, but compliance with which may be fundamental to the operations of the Council's activities, its ability to continue to operate, or to avoid material penalties;
- involving management, or employees who have significant roles in internal controls, or others; or
- in relation to any allegations of fraud, suspected fraud or other non-compliance with laws and regulations communicated by employees, former employees, analysts, regulators or others.

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 Council and committees held through the year to the most recent meeting on the following date: 30 July 2019

Management representation letter

Management Representation Letter

4. We confirm the completeness of information provided regarding the identification of related parties. We have disclosed to you the identity of the Council's related parties and all related party relationships and transactions of which we are aware, including sales, purchases, loans, transfers of assets, liabilities and services, leasing arrangements, guarantees, non-monetary transactions and transactions for no consideration for the period ended, as well as related balances due to or from such parties at the [period] end. These transactions have been appropriately accounted for and disclosed in the financial statements.

5. We 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 Note 36 to the financial statements all guarantees that we have given to third parties.

E. Subsequent Events

1. Other than those described in Notes 37 to the financial statements, there have been no events subsequent to period end which require adjustment of or disclosure in the financial statements or notes thereto.

F. Other information

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

Management representation letter

Management Representation Letter

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 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 2019.

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

EY | Assurance | Tax | Transactions | Advisory

About EY

EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.

EY refers to the global organization, and may refer to one or more, of the member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. For more information about our organization, please visit ey.com.

© 2017 EYGM Limited.
All Rights Reserved.

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

Kevin Suter
Ernst & Young LLP
Wessex House
19 Threefield Lane
Southampton
SO14 3QB

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: Will Fullbrook
Telephone: 01264 368000
E-mail: Finance@testvalley.gov.uk
Your ref:
Our ref:
Date: 30th July, 2019

Dear Kevin,

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 2019. 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 Council financial position of Test Valley Borough Council as of 31 March 2019 and of its income and expenditure for the year then ended in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.

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 2018/19.
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 2018/19, and are free of material misstatements, including omissions. 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 2018/19, that are free from material misstatement, whether due to fraud or error.
5. There are no unadjusted audit differences identified during the current audit and pertaining to the latest period presented.

B. 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.
4. We have no knowledge of any identified or suspected non-compliance with laws or regulations, including fraud that may have affected the Council (regardless of the source or form and including without limitation, any allegations by "whistleblowers"), including non-compliance matters:
 - involving financial statements;
 - related to laws and regulations that have a direct effect on the determination of material amounts and disclosures in the Council's financial statements;
 - related to laws and regulations that have an indirect effect on amounts and disclosures in the financial statements, but compliance with which may be fundamental to the operations of the Council's activities, its ability to continue to operate, or to avoid material penalties;
 - involving management, or employees who have significant roles in internal controls, or others; or
 - in relation to any allegations of fraud, suspected fraud or other non-compliance with laws and regulations communicated by employees, former employees, analysts, regulators or others.

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 Council and committees held through the year to the most recent meeting on the following date: 30 July 2019
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 Note 36 to the financial statements all guarantees that we have given to third parties.

E. Subsequent Events

1. Other than those described in Note 37 to the financial statements, there have been no events subsequent to period end which require adjustment of or disclosure in the financial statements or notes thereto.

F. Other information

1. We acknowledge our responsibility for the preparation of the other information. The other information comprises the Annual Governance Statement and the Narrative Statement.
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, and 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 faithfully,

W 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 2019.

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

Date



STATEMENT OF ACCOUNTS 2018/19

CONTENTS

	<u>Pages</u>
Narrative Statement	1 – 8
Explanation of the Accounting Statement	9 - 10
Statement of Responsibilities	11
Independent Auditors' Report	Not in this version
Expenditure & Funding Analysis	12
Comprehensive Income & Expenditure Statement	13
Movement In Reserves Statement	14
Balance Sheet	15
Cash Flow Statement	16
Notes to the Financial Statements	17 - 71
Collection Fund	72
Notes to the Collection Fund	73 - 75
Glossary of Terms	76 - 78
<u>Annex to the Accounts</u>	
Annual Governance Report	79 - 92

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 128,000 (SAPF 2018 base)¹

Average house price £325,000 February 2019 (£226,200 National Average)²

82.7% of 16 – 64 Year olds in employment (75.1% National Average)³

Average gross weekly (Full time) earnings £662.00 (£571.10 National Average)³

830 (1.1%) of working age residents claiming job seekers allowance or universal credit (2.7% National Average)³

6,145 Business Enterprises³

14,000 tonnes of waste recycled or composted in 2018/19

1,746 planning applications received in 2018/19

Source:

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

Governance

During 2018/19, Test Valley Borough Council consisted of 48 elected Councillors representing 24 wards. The political structure was:

Conservative 38
Liberal Democrat 9
Independent 1

Following the boundary reviews, with effect from the local elections held in May 2019 the Council now consists of 43 elected Councillors representing 20 wards.

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*' sought to outline the Council's vision and priorities for the four years 2015 – 2019. The Corporate Plan set out four priority aims which focused 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.

Test Valley's new Corporate Plan '*Growing our Potential*' for the four years 2019 – 2023 builds on the priorities from the previous plan. Using the Council's investing approach it aims to grow the potential of;

- *Town Centres* to adapt and be attractive, vibrant and prosperous places
- *Communities* to be empowered, connected and able to build upon their strengths
- *People* to be able to live well and fulfil their aspirations
- *The Local Environment* for current and future generations

Annual reports and details of the new Corporate Plan are published on the Council website:

[Test Valley Borough Council Corporate Plan](#)

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:

- In April 2019, the brand new Andover Leisure Centre opened to the public. This also formed part of a wider package of refurbishment to existing leisure facilities in the borough at Romsey Rapids and Knightwood Leisure Centre.
- 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 development and launch of a new tourism website for visitors to the town which provides information on events and activities. The master planning project for the South of Town Centre is underway, and a large-scale public engagement exercise took place in 2019, where local people could talk about their aspirations for the area.
- As part of Andover Vision, work is underway with local stakeholders on a number of projects including the creation of a new riverside park at Town Mill. In partnership with Hampshire County Council, the Borough Council has been successful in securing £500k investment from Enterprise M3 towards the Town Mill project.

- The Council undertook and completed a Community Governance Review with changes to parish boundaries taking effect on 1 April 2019. The aim of the review was to ensure that community governance arrangements in Test Valley reflects the identities and interests of the borough's communities, and are effective and convenient. The review was carried out after the Local Government Boundary Commission for England published its final recommendations for Test Valley Borough Council's new electoral arrangements at ward level. The community governance review provided the opportunity to consider whether changes should be made to parish arrangements in response to these and other issues raised by local people.
- In response to the new Homelessness Reduction Act, the Housing Service has embraced new opportunities through a 'developmental pilot' delivering a new model of service delivery based on principles of 'engagement and support'. This has included improving our approach to preventing and relieving homelessness, delivering sustainable and tailored outcomes and an improved 'universal' model of support for customers. Investing in new ways of working has bolstered the capacity of the Council to prevent and relieve homelessness in different ways. Working with people in a more 'asset-focused or strength based' way in the interests of promoting self-reliance and sustainable outcomes. The Pilot has now become business as usual.
- Work to prepare the Council's new Corporate Plan began in 2018/19 which focused on an extensive programme of public engagement through the summer months. Engaging with more than 2000 people from across the borough, Councillors spoke to residents about the issues that mattered most to them and what the Council should focus on. This information went on to form the evidence-base for the new Corporate Plan which the Council adopted in April 2019.
- Through the Council's corporate commitment to empower local communities, this year saw 120 projects benefit from the Councillor Grants and Community Asset Fund totalling £367,000.

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 2018/19

The initial forecast of General Fund revenue requirements began soon after the budget for 2017/18 was approved. A significant range of essential savings / improved income opportunities were 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 23rd February 2018. The net expenditure forecast for 2018/19 agreed at this stage totalled £12.908M. No draws from general reserves were included in the budget.

The actual outturn for 2018/19 reported to Cabinet on 20th May 2019 was £1.58M better than expected. This surplus was transferred to the following reserves:

	£'000
Capacity Building Reserve	300
Special Projects Reserve	150
Asset Management Plan Reserve	670
Local Development Fund Reserve	400
Apprenticeship Reserve	60
Total to be transferred to reserves	1,580

The Capacity Building Reserve is used to explore and implement “spend to save” initiatives.

The Special Projects Reserve will be available to fund future corporate projects, such as the Andover Town Centre Re-development project and the Romsey Future South of Town Centre project.

The Asset Management Plan Reserve is used for maintaining and replacing the Council's assets.

The Local Development Fund Reserve funds the system of Development Plans for the Council, delivering the planning strategy and policies for Test Valley.

The Apprenticeship Reserve enables services to fund an apprentice post which is in addition to their existing establishment.

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

	Approved Budget 2018/19 £'000	Actual 2018/19 £'000	Variance £'000
Service Expenditure (including Investment Property income and expenditure)	14,590	12,423	2,167
Corporate Items			
Reversal of capital charges including depreciation	(4,847)	(2,745)	(2,102)
Investment income and borrowing	(139)	(580)	441
Non-service related grants	(5,311)	(5,603)	292
Business rates levy	1,931	1,607	324
Retention of business rates for renewable energy schemes	(454)	(770)	316
Transfers to Earmarked / Capital reserves	7,138	9,408	(2,270)
Additional transfers to reserves arising from surplus in year	0	1,580	(1,580)
Transfer to / (from) Pension Reserve	0	(2,514)	2,514
Other	0	24	(24)
GENERAL FUND REQUIREMENTS	12,908	12,830	78
Met By			
Revenue Support grant	56	56	0
Locally retained business rates	5,237	5,159	78
Council Tax	7,095	7,095	0
Other Collection Fund	520	520	0
TOTAL REVENUE RESOURCES	12,908	12,830	78

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 £21.681M for 2018/19. From this amount the Council was required to pay the government a 'tariff' of £16.444M, leaving net budgeted income in the year of £5.237M compared to a baseline of £2.291M.

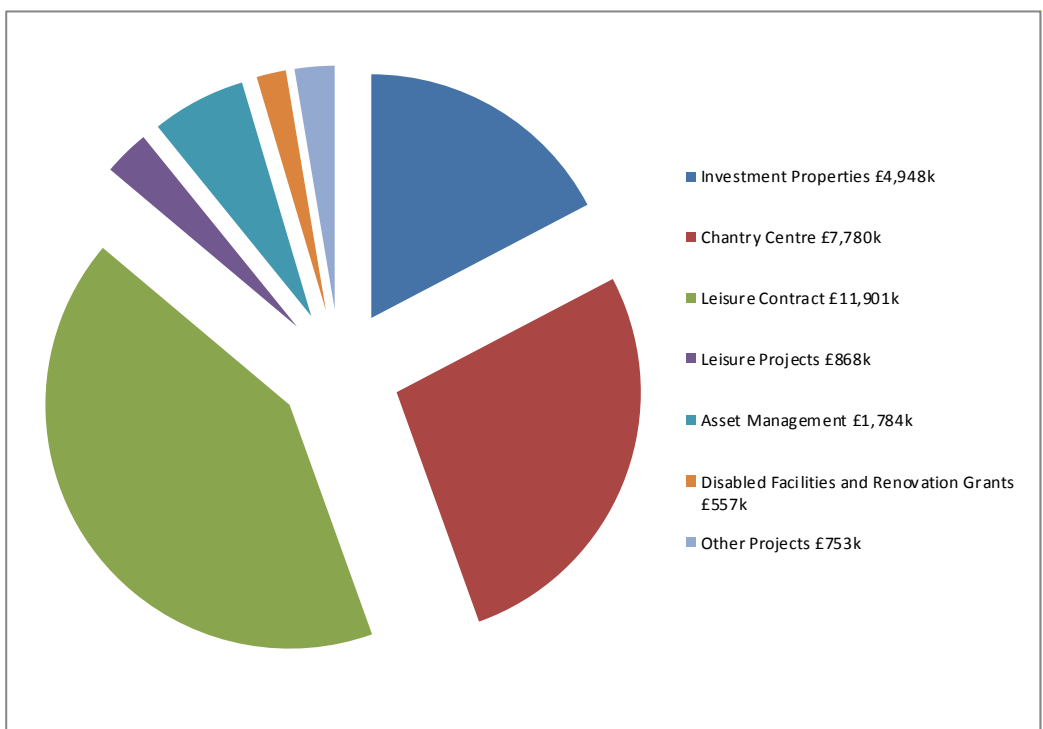
A complicated system of grants in respect of small business rate and other reliefs along with a levy for growth over the baseline figure is also in place. The budget assumed, after taking account of these reliefs and grants, a growth above the baseline of £3.862M resulting in a levy of £1.931M being payable. The actual retained income after taking account of the grants and an adjustment in the tariff payable to the government was £5.453M, a growth of £3.162M over the baseline figure. Of this, 50% is payable to the government as a levy on growth. After an adjustment to the 2017/18 levy amount, the Council will retain a net surplus of £1.555M.

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

	£'000
Total retained income from business rates	5,453
Baseline	(2,291)
Net growth on business rates	3,162
Levy @ 50% payable to government	(1,581)
Levy adjustment re 2017/18	(26)
Income retained by Test Valley	1,555

Capital Programme

Capital spending for the year totalled £28.59M, as summarised in the following chart:



The Council has invested substantially in capital projects in the year. The most significant was the leisure contract at £11.901M.

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 has been 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. Expenditure on the new Andover Leisure Centre was £11.312M in 2018/19. It opened to the public on 1st April 2019.

On 29th March 2019, the Council completed the purchase of the long leasehold of the Chantry Centre in Andover town centre for £7.78M. The Council already owned the freehold and 40% of the leasehold, so now has complete control over the site. As the Council pushes forward with its vision for Andover, the project to develop a Cultural Quarter on the adjacent site will be joined with the Chantry Centre to provide an opportunity for a major town centre redevelopment.

The Council finances its capital expenditure from a mixture of usable capital receipts, capital grants and contributions, and borrowing. In 2018/19, 35% came from usable capital receipts (£9.99M). This included the £4.339M proceeds from the sale of Evolution 50 on Walworth

Business Park which the Council developed in partnership with Kier Property Developments Limited. The Council borrowed £5.9M towards the funding of the leisure contract. The remainder of the capital expenditure was funded from contributions from revenue (£11.449M) and capital grants and contributions (£1.251M). The Council has set aside reserves for the future maintenance of its assets; budgeted asset management costs in 2019/20 and beyond will be funded from these reserves.

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

	2019/20 £'000
Affordable Housing capital projects	1,110
Community & Leisure projects	885
Skate Parks	183
Leisure Contract	2,461
Play areas / fitness trails	286
Disabled facilities and renovation grants	950
Asset Management projects	2,551
Ganger Farm - Sports & Recreation	636
Strategic purchases	1,997
Town Mill Access & Enhancement	132
Romsey Flood Alleviation Scheme	235
Hampshire Community Bank	125
Investment properties	2,169
Other capital projects	213
TOTAL	13,933

Financial Position at the Year End

General Fund reserves stood at £2M at 1st April 2018. This is considered to be a prudent minimum level of general reserves and this figure remains unchanged for the accounts at 31st March 2019.

In addition to the General Fund balances mentioned above, the Council held earmarked reserves of £21.556M available for specific revenue purposes and capital reserves of £9.486M 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 2019 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 2018/19 has enabled the Council to bolster reserves. 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

Pension Fund

In December 2018 the Court of Appeal ruled against the Government in the 'McCloud/Sargeant' judgement which found that the transitional protection arrangements put in place when the firefighters' and judges' pension schemes were reformed were age discriminatory. On 27th June 2019, the Supreme Court rejected the Government's request to appeal this judgement.

The Government Actuary's Department (GAD), under the instruction of the LGPS Advisory Board (England & Wales), were asked to calculate the 'worst-case' scenario impact at LGPS scheme level. The additional 'McCloud' liability is calculated by multiplying 3.2% by the value of the active liabilities at 31st March 2019. This has resulted in an additional liability of £1.62M in the pension fund and is shown as a Past Service Cost.

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

8

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 2018/19.

The accounts for 2018/19 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 £170.1M.
- **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 2018/19

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, 2019.

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

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

EXPENDITURE AND FUNDING ANALYSIS YEAR ENDED 31ST MARCH 2019

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 13.

2017/18			2018/19			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	
2,864	3,918	6,782	1,868	50	1,918	
3,175	1,502	4,677	3,265	1,459	4,724	
(8,000)	8,093	93	(9,172)	10,544	1,372	
1,435	1,134	2,569	1,208	748	1,956	
919	274	1,193	949	274	1,223	
1,726	203	1,929	1,693	194	1,887	
(137)	0	(137)	(156)	(140)	(296)	
6,248	(428)	5,820	6,396	1,108	7,504	
2,559	(401)	2,158	2,503	34	2,537	
10,789	14,295	25,084	8,554	14,271	22,825	5
(12,250)	(14,555)	(26,805)	(6,297)	(18,738)	(25,035)	5
(1,461)	(260)	(1,721)	2,257	(4,467)	(2,210)	5,8
(24,352)			(25,813)			
(1,461)			2,257			
(25,813)			(23,556)			

2017/18 £'000		2018/19 £'000
(2,000)	General Fund Balance	(2,000)
(23,813)	Earmarked Reserves Balance	(21,556)
(25,813)	Total General Fund	(23,556)

COMPREHENSIVE INCOME & EXPENDITURE STATEMENT YEAR ENDED 31 MARCH 2019

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.

2017/18		Net Exp.	Services	2018/19		Net Exp.	Note
Exp.	Income	2017/18		Exp.	Income	2018/19	
	£'000	£'000		£'000	£'000	£'000	
7,868	(1,086)	6,782	Community & Leisure	4,098	(2,180)	1,918	
6,280	(1,603)	4,677	Environmental Service	6,488	(1,764)	4,724	
4,683	(4,590)	93	Estates & Economic Development	5,698	(4,326)	1,372	
3,127	(558)	2,569	Housing & Environmental Health	2,849	(893)	1,956	
2,747	(1,554)	1,193	Planning & Building	2,877	(1,654)	1,223	
2,378	(449)	1,929	Revenues	2,349	(462)	1,887	
26,299	(26,436)	(137)	Benefits	25,398	(25,694)	(296)	
7,045	(1,225)	5,820	Corporate & Support	8,276	(772)	7,504	
2,978	(820)	2,158	Central Costs	3,035	(498)	2,537	
63,405	(38,321)	25,084	Net Cost of Services	61,068	(38,243)	22,825	
			Other Operating Income and Expenditure				
5,417	(947)	4,470	(Profit) / loss on disposal of Property, Plant & Equipment	0	(699)	(699)	20
1,404	(1,404)	0	Parish Precepts	1,509	(1,509)	0	
			Financing and Investment Income and Expenditure				
0	(528)	(528)	Interest Income	0	(595)	(595)	31
0	0	0	Interest Payable	16	0	16	31
			Impairment Losses / (Gains)	0	(16)	(16)	
4,000	(2,630)	1,370	Pension Fund Interest Costs	4,280	(2,800)	1,480	14
0	(756)	(756)	Changes in Fair Value of Investment Properties	2,855	0	2,855	17
328	(7,517)	(7,189)	Net Investment Property Income	312	(8,880)	(8,568)	17
74,554	(52,103)	22,451	Net Operating Expenditure	70,040	(52,742)	17,298	
			Taxation and non-specific grant income				
0	(6,859)	(6,859)	Council Tax Income	0	(7,195)	(7,195)	9
18,521	(22,501)	(3,980)	Business Rates Income & Expenditure	18,129	(20,953)	(2,824)	9
0	(7,023)	(7,023)	Non Ringfenced Government Grants	0	(5,659)	(5,659)	9
0	(6,310)	(6,310)	Capital Grants and Contributions	0	(3,830)	(3,830)	9,21
93,075	(94,796)	(1,721)	Surplus on the provision of services	88,169	(90,379)	(2,210)	
			Other comprehensive income and expenditure				
0	(2,902)	(2,902)	Net gains on revaluation of Property, Plant & Equipment	0	(3,061)	(3,061)	16
280	0	280	Re-measurement of the net defined benefit pension liability	0	(5,950)	(5,950)	14
93,355	(97,698)	(4,343)	Total comprehensive income and expenditure	88,169	(99,390)	(11,221)	

MOVEMENT IN RESERVES STATEMENT YEAR ENDED 31 MARCH 2019

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 2017/18</u>							
Balance as at 31st March 2017	24,352	18,658	377	43,387	109,044	152,431	
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	
<u>Movements during 2018/19</u>							
Total Comprehensive Income & Expenditure	2,210	0	0	2,210	9,011	11,221	
Adjustments between accounting basis and funding basis under regulations	(4,467)	(4,952)	2,301	(7,118)	7,118	0	8
Increase / (Decrease) in Year	(2,257)	(4,952)	2,301	(4,908)	16,129	11,221	28,29
Balance as at 31st March 2019	23,556	6,022	3,464	33,042	135,463	168,505	

2017/18 £'000		2018/19 £'000
2,000	General Fund Balance	2,000
23,813	Earmarked Reserves Balance	21,556
25,813	Total General Fund	23,556

BALANCE SHEET AS AT 31 MARCH 2019

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.

2017/18			2018/19		Note
£'000	£'000		£'000	£'000	
50,826		Land & Buildings	82,895		16
2,458		Vehicles, Plant & Equipment	2,716		16
7,938		Community Assets	9,311		16
778		Infrastructure Assets	735		16
439		Surplus Assets	433		16
4,618		Assets under Construction	0		16
	67,057	Property, Plant & Equipment (PPE)		96,090	
	106,836	Investment Properties		99,107	17
	140	Intangible Assets		121	18
769		Long-Term Debtors	792		31
17,336		Long-Term Investments	5,312		31
	18,105	Long-Term Assets		6,104	
8,639		Cash and Cash Equivalents	10,562		22
38,922		Short-Term Investments	40,562		31
202		Inventories	219		
12,035		Debtors	12,181		23
(2,169)		Less: Impairment Allowance	(2,026)		23
	57,629	Current Assets		61,498	
(32,688)		Creditors	(29,479)		24
0		Short-Term Borrowing	(194)		31
(1,275)		Provisions	(2,460)		25
	(33,963)	Current Liabilities		(32,133)	
	215,804	Total Assets less Current Liabilities		230,787	
0		Long-Term Borrowing	(5,722)		31
(58,520)		Net Liability to Pension Fund	(56,560)		14
	(58,520)	Long-Term Liabilities		(62,282)	
	157,284	Net Assets		168,505	
		Usable Reserves			
2,000		General Fund Balance	2,000		28
23,813		Revenue and Earmarked Reserves	21,556		28
10,974		Capital Receipts Reserve	6,022		28
1,163		Capital Grants Unapplied	3,464		28
	37,950	Total Usable Reserves		33,042	
		Unusable Reserves			
17,201		Revaluation Reserve	19,996		29
159,603		Capital Adjustment Account	172,897		29
7		Deferred Credits	7		29
1,221		Collection Fund Adjustment Account	(699)		29
(178)		Accumulated Absences Account	(178)		29
(58,520)		Pension Fund Reserve	(56,560)		29
	119,334	Total Unusable Reserves		135,463	
	157,284	Total Equity		168,505	

These financial statements replace the unaudited financial statements certified on 31st May 2019.

Signed:..... Date: 30th July 2019

W. Fullbrook, CPFA, Head of Finance

CASH FLOW STATEMENT YEAR ENDED 31 MARCH 2019

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.

2017/18			2018/19		Note
£'000	£'000		£'000	£'000	
		Revenue Activities			
	1,721	Net surplus on the provision of services		3,830	
		Adjustments for non-cash transactions			
2,018		Depreciation of PPE / Amortisation of intangibles	2,051		16,18
(756)		Revaluation (Gains) / Losses on Investment Properties	2,855		17
2,825		Impairment & Downward Valuations of PPE & intangibles	(68)		16,18
2,340		Pension Fund Transfers	2,370		14
(2,922)		Other non-cash items	748		27
	3,505			7,956	
	518	Adjustments in respect of Investing Activities		(4,252)	
		Adjustments for items on an accruals basis			
(1,348)		Increase in Debtors	(603)		
16		(Increase) / Decrease in Inventories	(17)		
6,574		Increase / (Decrease) in Creditors	(1,987)		
	5,242			(2,607)	
	10,986	Net Cash Inflow from Operating Activities		4,927	
		Investing Activities			
(45,669)		Purchase of Short-term and Long-term Investments	(39,118)		
44,000		Proceeds from Short-term and Long-term Investments	49,509		
(14,899)		Purchase of Assets	(26,898)		
61		Sale of Assets	2,980		
4,907		Other Capital Cash Received	4,632		
	(11,600)	Net Investing Activity Cashflow		(8,895)	
		Financing Activities			
0		Cash receipts of long-term borrowing	5,900		
299		Other receipts / (payments) for financing activities	(9)		27
	299	Net Financing Activity Cashflow		5,891	
	(315)	Net Increase / (Decrease) in Cash and Cash Equivalents		1,923	
	8,954	Cash and Cash Equivalents at the start of the reporting period		8,639	
	8,639	Cash and Cash Equivalents at the end of the reporting period		10,562	

NOTES TO THE CORE FINANCIAL STATEMENTS

INDEX

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

NOTES TO THE FINANCIAL STATEMENTS

1. **Accounting Policies**

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

1.2. **General Principles**

The Statement of Accounts summarises the Council's transactions for the 2018/19 financial year and its position at the year-end of 31 March 2019. 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 2018/19 ('the Code') and the Service Reporting Code of Practice 2018/19 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.

There are no prior period adjustments for 2018/19.

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:

- Revenue from contracts from service recipients, whether for services or the provision of goods, is accounted for when (or as) the goods or service are transferred to the service recipient in accordance with the performance obligations in the contract.
- 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 is 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 is 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. Annual charges to the financing and investment income and expenditure line in the Comprehensive Income and Expenditure Statement (CIES) for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. The effective rate is the rate that exactly discounts future cash payments over the life of the instrument to the amount at which it was originally recognised.

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

Financial Assets

Financial Assets are classified based on a classification and measurement approach that reflects the business model for holding the financial assets and their cashflow characteristics. There are three main classes of financial assets measured at:

- Amortised cost
- Fair value through profit or loss (FVPL), and
- Fair value through other comprehensive income and expenditure (FVOCI).

The Council's business model is to hold investments to collect contractual cash flows. Financial assets are therefore classified as amortised cost, except for those whose contractual payments are not solely payment of principal and interest (i.e. where the cash flows do not take the form of a basic debt instrument).

Financial Assets Measured at Amortised Cost

Financial assets measured at amortised cost 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 financial assets held by the Council, 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.

Any gains or losses that arise on the derecognition of an asset are credited or debited to the financing and investment income and expenditure line in the CIES.

Expected Credit Loss Model

The Council recognises expected credit losses on all its financial assets held at amortised cost either on a 12-month or lifetime basis. Only lifetime losses are recognised for trade receivables.

Impairment losses are calculated to reflect the expectation that the future cash flows might not take place because the borrower could default on their obligations. Credit risk plays a crucial part in assessing losses. Where risk has increased significantly since an instrument was initially recognised, losses are assessed on a lifetime basis. Where the risk has not increased significantly or remains low, losses are assessed on the basis of 12-month expected losses.

Financial Assets Measured at Fair Value through Profit or Loss

Financial assets that are measured at Fair Value through Profit or Loss are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured and carried at fair value. Fair value gains and losses are recognised as they arise in the Surplus or Deficit on the Provision of Services.

The fair value measurements of the financial assets are based on the following techniques:

- Instruments with quoted market price – the market price
- Other instruments with fixed and determinable payments – discounted cash flow analysis.

The inputs to the measurement techniques are categorised in accordance with the following three levels:

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

Any gains and losses that arise on the derecognition of the asset are credited or debited to the financing and investment income and expenditure line in the Comprehensive Income and Expenditure Statement.

1.21. **Inventories**

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

1.22. **Fair Value Measurement**

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

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

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

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

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

- Level 1 – quoted prices in active markets for identical assets or liabilities that the Council can access at the measurement date.

- Level 2 – inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3 – unobservable inputs for the asset or liability.

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

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

There are no Accounting Standards that have been issued but not yet adopted that would have a material effect on this year's Statement of Accounts were they in effect for the year ended 31st March 2019, nor are they expected to have a material effect on the Statement of Accounts for the year ended 31st March 2020.

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.

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 2019 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
Impairment Allowance	The Council has made allowances for doubtful debts of £2.026M in 2018/19 (2017/18 £2.169M) 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 £101,300 (2017/18 £108,500).
Pension Liability	Estimation of the net liability to pay pensions depends on a number of complex judgments relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns from pension fund assets. A firm of actuaries is engaged by the pension fund administrator to provide expert advice about the assumptions to be applied.	<p>More information can be found in Note 14 about the sensitivity to changes in assumptions in respect of:</p> <ul style="list-style-type: none"> • The discount rate used • Salary inflation • Rates of increase to pensions in payment • Mortality rates
Provisions	The Council has made a provision of £2.46M in 2018/19 (2017/18 £1.275M) 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 £246,000 (2017/18 £127,500).

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 2018/19

Adjustments between Funding and Accounting Basis				
2018/19				
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	(357)	172	235	50
Environmental Service	639	479	341	1,459
Estates & Economic Development	1,743	233	8,568	10,544
Housing & Environmental Health	555	193	0	748
Planning & Building	0	274	0	274
Revenues & Benefits	0	194	(140)	54
Corporate & Support	143	965	0	1,108
Central Costs	23	0	11	34
Net Cost of Services	2,746	2,510	9,015	14,271
Other income and expenditure from the Expenditure and Funding Analysis	(13,123)	1,480	(7,095)	(18,738)
Difference between General Fund surplus or deficit and Comprehensive Income and Expenditure Statement Surplus or Deficit on the Provision of Services	(10,377)	3,990	1,920	(4,467)

Comparative Transactions for 2017/18

Adjustments between Funding and Accounting Basis				
2017/18				
	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)

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.

Committed income from Section 106 grants of £145,000 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 £576,000.

- For **Financing and investment income and expenditure** – this column recognises adjustments to the General Fund for net investment property income of £8.568M 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 £1.92M 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	2017/18 Revenues from external customers £'000	2018/19 Revenues from external customers £'000
Community & Leisure	947	2,119
Environmental Service	1,603	1,742
Estates & Economic Development	12,106	13,207
Housing & Environmental Health	327	457
Planning & Building	1,554	1,654
Revenues	215	207
Benefits	1,056	959
Corporate & Support	1,113	616
Central	402	145
Total income analysed on a segmental basis	19,323	21,106

7. Expenditure and Income analysed by nature

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

Expenditure / Income	2017/18 £'000	2018/19 £'000
Expenditure		
Employee benefits expenses	18,704	20,632
Other service expenses	38,775	37,962
Depreciation, amortisation, impairment	4,843	1,983
Other capital charges	1,223	740
Interest payable	0	16
Precepts and levies	1,404	1,509
Pension fund interest costs	1,370	1,480
Total expenditure	66,319	64,322
Income		
Fees, charges and other service income	(19,323)	(21,106)
Interest and investment income	(528)	(595)
Changes in fair value of investment properties	(756)	2,855
Income from council tax and non-domestic rates	(12,243)	(11,528)
Government grants and contributions	(39,660)	(35,459)
(Gain) / loss on the disposal of assets	4,470	(699)
Total income	(68,040)	(66,532)
Surplus on the Provision of Services	(1,721)	(2,210)

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 2018/19

	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	2,005	0	0	2,005	(2,005)	16
Amortisation of intangible assets	46	0	0	46	(46)	18
Impairment of non-current assets	(68)	0	0	(68)	68	16
Movement in the fair value of investment property	2,855	0	0	2,855	(2,855)	17
Profit on disposal of non-current assets	(699)	0	0	(699)	699	20
Revenue expenditure funded from capital under statute	193	(143)	(50)	0	0	29
Impairment of capital loans	23	0	0	23	(23)	29
Capital grants, contributions and income in relation to donated assets credited to the CI&ES	(277)	0	0	(277)	277	21
Adjustments primarily involving the Capital Receipts Reserve						
Proceeds from disposal of non-current assets	0	5,039	0	5,039	(5,039)	28
Financing of new capital expenditure	(12,104)	(9,848)	0	(21,952)	21,952	21
Adjustments primarily involving the Capital Grants Unapplied Reserve						
Capital grants credited to CIES for which expenditure has not yet been incurred	(2,351)	0	2,351	0	0	28
Adjustments primarily involving the Pensions Reserve						
Reversal of items relating to retirement benefits charged to the CI&ES	6,820	0	0	6,820	(6,820)	14
Employer's contribution to pension fund / directly to pensioners	(2,830)	0	0	(2,830)	2,830	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.	1,920	0	0	1,920	(1,920)	29
	(4,467)	(4,952)	2,301	(7,118)	7,118	

Comparative Transactions for 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 income credited to the CI&ES is different from Council Tax income calculated for the year in accordance with statutory requirements.	(426)	0	0	(426)	426	29
	(260)	(7,684)	786	(7,158)	7,158	

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	2017/18 £'000	2018/19 £'000
Council Tax Income	Council Taxpayers	6,859	7,195
Revenue Support Grant	MHCLG	417	56
New Homes' Bonus	MHCLG	4,921	3,837
Small Business Rate Relief	MHCLG	1,210	1,444
Transparency Code Set-Up	MHCLG	8	0
First Property Relief	MHCLG	9	11
Transition Grant	MHCLG	54	0
Local Newspaper Temporary Relief	MHCLG	0	1
'New Empty' Properties Relief	MHCLG	88	(1)
Retail Relief	MHCLG	0	(1)
Discretionary Relief	MHCLG	127	64
Council Tax Family Annex Grant	MHCLG	53	64
Letting Agents Transparency Grant	MHCLG	1	1
Public Houses Relief	MHCLG	18	19
Self Employed Earnings Review Grant	MHCLG	0	5
Rural Rate Relief	MHCLG	12	23
Supporting Small Businesses	MHCLG	7	7
Business Rate Tariff Adjustment	MHCLG	1	0
Multiplier Cap	MHCLG	97	129
		13,882	12,854

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	2017/18 £'000	2018/19 £'000
Share of income transferred from Collection Fund	21,826	20,545
Tariff paid to government	(15,992)	(16,522)
Share of surplus on Collection Fund in the year	675	408
Levy payable to government in respect of growth in the year	(2,529)	(1,607)
Net Business Rates Income	3,980	2,824

Capital grants and contributions were received in the year as shown in the following table and includes £277,000 in donated assets under section 106 agreements (2017/18 includes £2.359M in donated assets under section 106 agreements).

Capital Grants and Contributions	Awarding Body	2017/18 £'000	2018/19 £'000
Disabled Facilities Grant	MHCLG	1,124	1,221
Contributions to works on property	Tenants / Other developers	105	14
Plug-in Grant	Government	0	20
Contributions under s106 and CIL agreements / capital grants	Developers	5,081	2,575
		6,310	3,830

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

Specific Grants included in the Net Cost of Services	Awarding Body	2017/18 £'000	2018/19 £'000
Housing Benefit Subsidy	DWP	25,170	24,543
Housing Benefit Administration Subsidy	DWP	278	258
Localising Council Tax Admin Subsidy	MHCLG	95	90
Discretionary Housing Payments	DWP	211	192
Universal Credit New Burdens Grant	DWP	10	44
Discretionary Housing Payments Admin New Burdens Grant	DWP	24	0
Welfare Reforms New Burdens Grant	DWP	0	22
Fraud Prevention Grant	DWP	0	1
Business Rates Collection	MHCLG	188	187
Business Rates New Burden Admin Costs Grant	MHCLG	12	0
Property Searches New Burdens Grant	MHCLG	0	22
Disabled Facilities Grant	MHCLG	16	40
Individual Electoral Registration	MHCLG	43	15
Flexible Homelessness Support Grant	MHCLG	169	229
Preventing Homelessness Grant	MHCLG	42	48
Private Rented Sector Access Grant	MHCLG	0	115
H-CLIC New Burdens Grant	MHCLG	0	3
Single Homelessness Grant	MHCLG	4	0
Local Authorities Parks Improvement Grant	MHCLG	0	19
Clean Up Grant	MHCLG	0	22
New Forest Mitigation	MHCLG	0	78
Transparency Code Set-Up	MHCLG	0	8
Self and Custom Build Register New Burden Grant	MHCLG	45	30
Brown Field Grant	MHCLG	20	4
		26,327	25,970

10. Special Expenses

Income from the special Council Tax Levy which applies in the Andover Town Council area was £296,600 in 2018/19 (£292,800 – 2017/18).

11. External Audit Costs

In 2018/19 Test Valley Borough Council incurred the following fees in relation to external audit and inspection.

Class of Work	2017/18 £'000	2018/19 £'000
External Audit Fees	53	45
Certification of Grants Claim and Returns	13	8
	66	53

12. Members' Allowances

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

	2017/18 £'000	2018/19 £'000
Allowances	444	455
Expenses	14	14
Total Members' Allowances	458	469

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 2018/19 was:-

Remuneration Band	2017/18 Number of Employees	2018/19 Number of Employees
£50,000 - £54,999	7	7
£55,000 - £59,999	6	2
£60,000 - £64,999	3	4
£65,000 - £69,999	4	1
£70,000 - £74,999	0	2
£75,000 - £79,999	4	1
£80,000 - £84,999	2	5
£85,000 - £104,999	0	0
£105,000 - £109,999	2	1
£110,000 - £129,999	0	1
£130,000 - £134,999	0	1
£135,000 - £144,999	0	0
£145,000 - £149,999	1	0

The following table sets out the remuneration of senior officers in the year. A senior officer is described as 'a person who has responsibility for the management of the 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	
	17/18 £'000	18/19 £'000	17/18 £'000	18/19 £'000	17/18 £'000	18/19 £'000	17/18 £'000	18/19 £'000	17/18 £'000	18/19 £'000
Chief Executive - Note (a)	138	124	9	8	147	132	19	19	166	151
Corporate Director	101	103	9	7	110	110	14	16	124	126
Corporate Director	101	103	6	6	107	109	14	16	121	125
Head of Community & Leisure	73	79	8	5	81	84	10	12	91	96
Head of Environmental Services	74	79	9	5	83	84	10	12	93	96
Head of Estates	74	79	4	4	78	83	10	12	88	95
Head of Finance	73	79	4	5	77	84	10	12	87	96
Head of Housing & Environmental Health (1) - Note (b)	13	0	1	0	14	0	1	0	15	0
Interim Head of Housing & Environmental Health - Note (b)	26	0	2	0	28	0	4	0	32	0
Head of Housing & Environmental Health (2) - Note (b)	29	75	2	4	31	79	4	11	35	90
Head of IT - Note (c)	73	20	3	1	76	21	10	0	86	21
Head of Legal & Democratic	63	70	4	4	67	74	0	0	67	74
Head of Planning & Building	73	79	4	4	77	83	10	12	87	95
Head of Planning Policy	60	64	3	4	63	68	8	10	71	78
Acting Head of Revenues - Benefits & Customer Services - Note (d)	35	37	2	2	37	39	5	5	42	44
Acting Head of Revenues - Local Taxation Note (d)	37	40	2	2	39	42	5	5	44	47

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 2018/19 were £NIL (2017/18 £19,400).

Note (b) – The Head of Housing and Environmental Health (1) retired part way through 2017/18. 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 in 2017/18.

Note (c) – The Head of IT left part way through 2018/19. The Council shared the costs with Winchester City Council and received £10,100 as a contribution towards the employment costs of the postholder (2017/18 £46,200).

Note (d) – 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	
	2017/18	2018/19	2017/18	2018/19	2017/18 £'000	2018/19 £'000
£0 - £20,000	0	2	2	2	19	28
£20,001 - £40,000	2	0	0	0	69	0
Total	2	2	2	2	88	28

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:

Comprehensive Income & Expenditure Statement	2017/18 £'000	2018/19 £'000
<u>Cost of Services</u>		
Current Service Costs	3,740	3,910
Past Service Costs	0	1,620
Unfunded Benefits Paid Out	(210)	(190)
<u>Financing & Investment Income & Expenditure</u>		
Interest Cost	4,000	4,280
Interest Income	(2,630)	(2,800)
Total amount included in the Surplus on Provision of Services	4,900	6,820
<u>Other Comprehensive Income & Expenditure</u>		
Actuarial (gains) / losses due to change in financial assumptions	(150)	8,680
Actuarial gains due to demographic assumption changes	0	(7,190)
Experience losses on liabilities	960	300
Remeasurement gains on assets	(530)	(7,740)
Total amount charged to the Comprehensive Income & Expenditure Statement	5,180	870
<u>Movement In Reserves Statement</u>		
Reversal of net charges made to the deficit on the provision of services in accordance with the Code	(4,900)	(6,820)
Actual employer's contributions payable	2,560	2,830
Total Amount included in the Movement in Reserves Statement (note 8)	(2,340)	(3,990)

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.

Following the McCloud judgement (see Note 37), the Government Actuary's Department (GAD), under the instruction of the LGPS Advisory Board (England & Wales), were asked to calculate the 'worst-case' scenario impact at LGPS scheme level. The additional liability was calculated to be 3.2% of the active liabilities using a salary increase assumption of 1.5% above CPI Inflation, and less than 0.1% of the active liabilities where salaries were assumed to increase in line with CPI Inflation.

The additional 'McCloud' liability is calculated by multiplying 3.2% by the value of the active liabilities at 31st March 2019. This has resulted in an additional liability of £1.62M in the pension fund and is shown as a Past Service Cost.

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 2018/19 the rate was 15.1% plus a fixed sum contribution of £929,900 (2017/18 14.1% plus £854,700 fixed sum contribution).

It is forecast that pension contributions payable by the employer in 2019/20 in respect of regular contributions will amount to £3.12M and in respect of unfunded liabilities will amount to £190,000.

The allowance for administration expenses included in the Current Service Cost is £40,000 (2017/18 £40,000).

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 2019 was £56.56M (2017/18 - £58.52M).

Liabilities	2017/18 £'000	2018/19 £'000
Opening present value of funded liabilities	158,180	163,000
Current Service Cost	3,740	3,910
Interest Cost	3,910	4,190
Contributions by Participants	840	850
Actuarial (gain) / loss on liabilities due to change in financial assumptions	(160)	8,580
Actuarial gain on liabilities due to change in demographic assumptions	0	(7,050)
Experience (gains) / losses on liabilities	930	290
Net benefits paid out	(4,440)	(4,640)
Past service cost	0	1,620
Closing present value of funded liabilities	163,000	170,750
Opening present value of unfunded liabilities	3,610	3,530
Interest Cost	90	90
Actuarial loss on liabilities due to change in financial assumptions	10	100
Actuarial gains on liabilities due to change in demographic assumptions	0	(140)
Experience (gains) / losses on liabilities	30	10
Net benefits paid out	(210)	(190)
Closing present value of unfunded liabilities	3,530	3,400
Total present value of scheme liabilities	166,530	174,150

Assets	2017/18 £'000	2018/19 £'000
Opening fair value of assets	105,890	108,010
Interest income on assets	2,630	2,800
Actuarial gain on assets	530	7,740
Contributions by the employer	2,560	2,830
Contributions by participants	840	850
Net benefits paid out	(4,440)	(4,640)
Closing fair value of assets	108,010	117,590

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	2017/18 £'000	2018/19 £'000
Interest income on assets	2,630	2,800
Actuarial gains on assets	530	7,740
Actual return on assets	3,160	10,540

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:

	2017/18	2018/19
Discount rate for funded liabilities	2.6%	2.4%
Discount rate for unfunded liabilities	2.6%	2.4%
Rate of Inflation - RPI (funded)	3.2%	3.3%
Rate of Inflation - RPI (unfunded)	3.2%	3.3%
Rate of Inflation - CPI (funded)	2.1%	2.2%
Rate of Inflation - CPI (unfunded)	2.1%	2.2%
Rate of increase in salaries	3.6%	3.7%
Rate of increase in pensions in payment	2.1%	2.2%
Rate of increase in pensions in deferment	2.1%	2.2%
Mortality Assumptions		
Longevity at 65 for current pensioners (years)		
Men	24.1	23.3
Women	27.2	26.1

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 2019.

	2017/18	2018/19
Equities	62.6%	60.4%
Bonds	24.7%	27.9%
Property	7.0%	7.6%
Other	5.7%	4.1%
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 2019 and the projected service cost for the year ending 31st March 2020 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)	167.72	173.83
% change in present value of total obligation	-1.8%	1.8%
Projected service cost (£M)	4.02	4.26
Approx % change in projected service cost	-2.9%	2.9%
Rate of increase in salaries		
Adjustment to salary increase rate	+0.1% pa	-0.1% pa
Present value of total obligation (£M)	171.25	170.26
% change in present value of obligation	0.3%	-0.3%
Projected service cost (£M)	4.14	4.14
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)	173.33	168.21
% change in present value of obligation	1.5%	-1.5%
Projected service cost (£M)	4.26	4.02
Approx % change in projected service cost	2.9%	-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)	176.17	165.37
% change in present value of obligation	3.2%	-3.2%
Projected service cost (£M)	4.30	3.98
Approx % change in projected service cost	3.9%	-3.8%

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.

	2017/18 £'000	2018/19 £'000
Receivable within one year	7,390	8,996
Receivable within one to five years	28,819	32,306
Receivable after five years	416,034	421,050
Total minimum lease rentals receivable	452,243	462,352

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

In 2018/19 the Council recognised income from contingent rents of £597,000 (2017/18 - £597,000).

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.

2018/19	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	42,439	6,714	902	9,462	559	4,618	64,694
Revaluation Increases shown in the Revaluation Reserve b/f	17,410	0	54	0	0	0	17,464
Revaluation Decreases shown in the CI&ES b/f	(8,015)	(81)	(16)	(923)	(107)	0	(9,142)
Additions	9,401	1,046	0	1,498	0	11,312	23,257
Reclassification	20,582	0	0	0	0	(15,930)	4,652
Revaluations	3,061	0	0	0	0	0	3,061
Reverse depreciation on disposed / revalued assets	(841)	(386)	0	(16)	0	0	(1,243)
Impairments in year	68	0	0	0	0	0	68
Cost / Valuation at 31st March 2019	84,105	7,293	940	10,021	452	0	102,811
Depreciation							
Historic Cost Depreciation b/f	(765)	(4,175)	(138)	(601)	(13)	0	(5,692)
Depreciation on Revaluations b/f	(243)	0	(24)	0	0	0	(267)
Charge in year - Historic Cost	(786)	(788)	(35)	(125)	(6)	0	(1,740)
Charge in year - Revalued Amounts	(257)	0	(8)	0	0	0	(265)
Reverse depreciation on disposed / revalued assets	841	386	0	16	0	0	1,243
Depreciation at 31st March 2019	(1,210)	(4,577)	(205)	(710)	(19)	0	(6,721)
Net Book Value at 31st March 2019	82,895	2,716	735	9,311	433	0	96,090
Net Book Value at 31st March 2018	50,826	2,458	778	7,938	439	4,618	67,057

Comparative Information for 2017/18

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

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 2014/15	Reval 2015/16	Reval 2016/17	Reval 2017/18	Reval 2018/19	Total value of PPE
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Land and Buildings	15,930	0	13,989	133	3,383	31,125	18,335	82,895
Vehicles, Plant & Equipment	988	1,728	0	0	0	0	0	2,716
Infrastructure	104	259	372	0	0	0	0	735
Community	6,502	2,809	0	0	0	0	0	9,311
Surplus Assets	0	0	0	433	0	0	0	433
Total PPE Assets	23,524	4,796	14,361	566	3,383	31,125	18,335	96,090

The Council carries out a rolling programme of valuations that ensures all PPE assets are valued at least once every five years. Revaluations in 2018/19 were carried out by the Council's internal RICS registered valuer and an external valuer, Vail Williams. All revaluations were carried out as at 31st January 2019 and reviewed at 31st March 2019 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 2019 contractual commitments on existing capital schemes totalled £2.714M (2017/18 £14.523M). The most significant item is £2.46M in relation to the redevelopment of the Borough's leisure facilities.

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.

	2017/18	2018/19
	£'000	£'000
Rental income from Investment Property	7,517	8,880
Investment Property direct costs	(328)	(312)
Net Investment Property income	7,189	8,568

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 2019, the Council has a contractual commitment of £1.907M to construct investment property.

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

	2017/18 £'000	2018/19 £'000
Balance at start of year	97,062	106,836
Purchase of new property	7,720	989
Expenditure on existing property	421	55
Expenditure on property under construction	877	1,905
Reclassification to Property, Plant & Equipment	0	(4,652)
Net changes in fair value of property	756	(2,855)
Disposals	0	(3,171)
Balance at end of year	106,836	99,107

On 21st December 2018, the Council completed the sale of Evolution 50 on Walworth Business Park for £6.342M which the Council developed in 50:50 partnership with Kier Property Developments Limited. The disposal value in the table above represents the Council's 50% share.

On 29th March 2019, the Council completed the purchase of the long leasehold of the Chantry Centre in Andover town centre for £7.78M. The Council already owned the freehold and 40% of the leasehold which was classified as an investment property, so now has complete control over the site. As the Council pushes forward with its vision for Andover, the project to develop a Cultural Quarter on the adjacent site will be joined with the Chantry Centre to provide an opportunity for a major town centre redevelopment. The Chantry Centre is therefore no longer classified as an investment property and has been reclassified as Property, Plant & Equipment under Land & Buildings.

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
Additions	27	0	27
Cost / Valuation at 31st March 2019	800	57	857
Amortisation			
Amortisation of Historic Cost b/f	(690)	0	(690)
Charge for the year	(46)	0	(46)
Amortisation at 31st March 2019	(736)	0	(736)
Net Book Value as at 31st March 2019	64	57	121
Net Book Value as at 31st March 2018	83	57	140

Comparative information for 2017/18

	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

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
	2017/18 £'000	2017/18 £'000	2018/19 £'000	2018/19 £'000
Included in Community Assets	236	411	298	473
Not included in the Balance Sheet	0	190	0	190
Total	236	601	298	663

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 profit on the disposal of fixed assets of £699,000 (2017/18 net loss of £4.47M). An analysis of this profit / (loss) is shown in the following table.

	2017/18 £'000	2018/19 £'000
Right To Buy Contributions	889	699
Net loss on disposal of property, plant & equipment	(5,359)	0
Total Profit / (Loss) on Disposal of Assets	(4,470)	699

The loss on disposal of property, plant & equipment in 2017/18 includes £5.106M for the partial demolition of Andover Leisure Centre.

21. Capital Expenditure and Financing

Total Capital Expenditure to be financed in 2018/19 amounted to £28.59M. This can be analysed as expenditure on new assets (£25.956M), revenue expenditure funded from capital under statute (£739,000) and expenditure classified as financial instruments (£1.895M).

	2017/18 £'000	2018/19 £'000
Opening Capital Financing Requirement	(678)	(678)
Capital Expenditure		
Property, Plant & Equipment	9,268	23,257
Investment Property	9,018	2,949
Intangible Assets	0	27
Revenue Expenditure Funded from Capital	1,223	739
Under Statute		
Capital loan	199	1,895
Equity investment	125	0
Sources of Finance		
Capital Receipts	(8,632)	(9,990)
Government Grants and Other Contributions	(5,558)	(1,528)
Contributions from Revenue / Reserves	(5,643)	(11,449)
Closing Capital Financing Requirement	(678)	5,222

The movement in the Capital Financing Requirement represents an increase in the underlying need to borrow in the year in order to fund the capital expenditure. This was met with a loan of £5.9M from the Public Works Loan Board (PWLB).

The Property, Plant & Equipment line and the Government Grants and Contributions line above for 2018/19 include the assumed cost and contribution of donated assets valued at £277,000 (2017/18 £2.359M) 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 net transfer to the capital grants unapplied reserve of £2.302M.

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

	2018/19 Long-Term Assets £'000	2018/19 Revenue Expenditure Funded From Capital £'000	2018/19 Total £'000
Community & Leisure	13,297	246	13,543
Environmental	683	0	683
Estates & Economic Development	12,137	0	12,137
Housing & Env. Health	19	491	510
IT	97	2	99
Total Expenditure	26,233	739	26,972

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.

	2017/18	2018/19
	£'000	£'000
Cash held by the Council	5	5
Bank Current Accounts	4,146	7,949
Short-term deposits	4,488	2,608
Total Cash & Cash Equivalents	8,639	10,562

23. Analysis of Debtors

	2017/18	2018/19		
		Debtor	Impairment	Net
	£'000	£'000	Allowance	£'000
		£'000	£'000	£'000
Central Government Bodies	1,293	2,759	0	2,759
Sundry Debtors	7,777	8,340	(1,298)	7,042
Collection Fund	715	939	(656)	283
Housing	7	63	(56)	7
Car Leasing and Loans	74	80	(16)	64
Total Debtors	9,866	12,181	(2,026)	10,155

Included within car leasing and loans in the previous table are loans to employees for vehicle purchases. At 31st March 2019, £65,000 (2017/18 - £71,000) was outstanding.

24. Analysis of Creditors

	2017/18	2018/19
	£'000	£'000
Sundry Creditors	7,107	5,737
Collection Fund	4,264	3,934
Central Government	5,180	2,860
Section 106 Balances	15,959	16,770
Compensated Absences Accrual	178	178
Total Creditors	32,688	29,479

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 2019/20 that have been received before the end of 2018/19. 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 72 to 75.

The Collection Fund balances are shown in the following table.

	2017/18 £'000	2018/19 £'000
Council's share of Council Tax receipts in advance	107	97
Other preceptors' share of Council Tax movement	1,274	1,006
Council's share of Business Rates' receipts in advance	306	264
Other preceptors' share of Business Rates movement	2,577	2,567
Total Collection Fund balances	4,264	3,934

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.

	2017/18 £'000	2018/19 £'000
Open Spaces / Recreation	6,883	7,480
Highways / Cycle Routes / Green Travel	4,421	3,929
Affordable Housing	1,021	1,062
Education & Skills' Development	415	305
Public Art	437	356
Community Facilities	2,435	3,314
Other	347	324
Total Section 106 balances	15,959	16,770

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 (2018/19 £2.46M; 2017/18 £1.275M) 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 2019. £770,000 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 £1.69M in respect of the 2017 list.

The following table details the movement in the provision.

	2017/18 £'000	2018/19 £'000
Balance at start of year	1,725	1,275
Amounts charged to the provision	(338)	(416)
Increase / (decrease) in provision	(112)	1,601
Balance at end of year	1,275	2,460

26. Trust Funds

The Council operates a number of trusts for civic purposes. The balances at the end of the year were £64,000 (2017/18 £66,000). The most significant balance is in respect of the Romsey Walk and Pleasure Ground - £57,300 (2017/18 - £57,000).

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:	2017/18 £'000	2018/19 £'000
Interest received	528	595
Interest paid	0	(16)

Other Non-Cash items	2017/18 £'000	2018/19 £'000
Movement in Bad Debt Allowance	(87)	(143)
Movement in provision in respect of Business Rates appeals	(450)	1,185
Donated assets under s106 agreements	(2,359)	(277)
Other non-cash items	(26)	(17)
Other Non-Cash items	(2,922)	748

Other income / (payments) for financing activities	2017/18 £'000	2018/19 £'000
Movement in Council Tax debtors	2	(11)
Movement in amounts owed to Council Tax preceptors	(187)	(268)
Movement in Business Rates debtors	94	279
Movement in amounts owed to Business Rates preceptors	390	(9)
Other income / (payments) for financing activities	299	(9)

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	2017/18 £'000	2018/19 £'000
General Fund Balance	2,000	2,000
Revenue & Earmarked Reserves	23,813	21,556
Capital Receipts Reserve	10,974	6,022
Capital Grants Unapplied Reserve	1,163	3,464
Total Usable Reserves	37,950	33,042

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.

	Balance as at 31/03/2017	Transfers In 2017/18	Transfers Out 2017/18	Balance as at 31/03/2018	Transfers In 2018/19	Transfers Out 2018/19	Balance as at 31/03/2019
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Income Equalisation Reserve	300	0	0	300	0	0	300
Budget Equalisation Reserve	682	0	0	682	0	0	682
Investment Equalisation Reserve	250	0	0	250	0	0	250
Pension Equalisation Reserve	200	0	0	200	0	(100)	100
Collection Fund Equalisation Reserve	2,411	1,205	0	3,616	0	0	3,616
Capacity Building Reserve	254	0	(91)	163	300	(74)	389
Special Projects Reserve	252	429	(69)	612	155	(428)	339
New Homes' Bonus Reserve	7,954	4,921	(4,444)	8,431	3,837	(8,547)	3,721
Asset Management Plan	2,604	1,584	(2,341)	1,847	3,796	(2,689)	2,954
Chantry Centre Planned Maintenance Reserve	0	0	0	0	1,349	0	1,349
Budget Carry Forward Reserve	126	285	(96)	315	280	(287)	308
Local Authority Business Growth Incentive	6	0	(4)	2	0	0	2
Borough Election Reserve	35	35	0	70	35	0	105
All Risks Self-Insurance Reserve	152	0	(3)	149	0	(53)	96
Business Support (Floods)	147	0	0	147	0	0	147
Local Development Framework Reserve	97	47	(17)	127	405	(8)	524
Waste Performance & Efficiency Grant	38	0	(5)	33	0	(16)	17
Benefit Reform Reserve	160	0	(26)	134	0	(56)	78
Developer contribution for future years' maintenance costs	5,876	401	(472)	5,805	144	(645)	5,304
Enterprise and Innovation Reserve	416	0	(47)	369	0	(39)	330
Valley Housing Ltd Reserve	250	0	0	250	0	0	250
Housing Reserve	6	169		175	280	(93)	362
Private Rented Sector Access Reserve	0	0	0	0	115	0	115
Other Earmarked Reserves	136	0	0	136	82	0	218
Total Earmarked Revenue Reserves	22,352	9,076	(7,615)	23,813	10,778	(13,035)	21,556

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 £96,000 (2017/18 £149,000) 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.

	2017/18		2018/19	
	£'000	£'000	£'000	£'000
Balance at start of year		18,658		10,974
Capital Receipts				
Sale of Assets	58		4,340	
Right to Buy Receipts	889		699	
		947		5,039
Capital Expenditure				
Purchase of Assets	(8,071)		(9,848)	
Revenue Expenditure funded from Capital Under Statute	(560)		(143)	
		(8,631)		(9,991)
Balance at end of year		10,974		6,022

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.

The movement in the balance of the Capital Grants Unapplied Reserve is shown in the following table.

	2017/18		2018/19	
	£'000	£'000	£'000	£'000
Balance at start of year		377		1,163
Capital Grants Received:				
Disabled Facilities Grants	441		674	
Community Infrastructure Levy	311		1,677	
Capital Loan Repayment	34		0	
		786		2,351
Capital Expenditure				
Revenue Expenditure funded from Capital Under Statute	0		(50)	
		0		(50)
Balance at end of year		1,163		3,464

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	2017/18 £'000	2018/19 £'000
Revaluation Reserve	17,201	19,996
Capital Adjustment Account	159,603	172,897
Deferred Credits	7	7
Collection Fund Adjustment Account	1,221	(699)
Accumulated Absences Account	(178)	(178)
Pension Fund Reserve	(58,520)	(56,560)
Total Unusable Reserves	119,334	135,463

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.

	2017/18		2018/19	
	£'000	£'000	£'000	£'000
Balance at start of year		16,287		17,201
Upward revaluations of assets in the year	2,902		3,061	
Depreciation of previous years' revaluation gains	(165)		(266)	
Reverse gains on assets disposed of in the year	(1,823)		0	
		914		2,795
Balance at end of year		17,201		19,996

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.

	2017/18		2018/19	
	£'000	£'000	£'000	£'000
Balance at start of year		148,033		159,603
Adjustment to correct 2016/17 closing balance		510		0
Transfer from Revaluation Reserve	1,988		266	
Revaluation gains / (losses) on Investment Property	756		(2,855)	
Assets purchased in the year	18,411		20,333	
Capital loan advanced in year	199		1,895	
Transfer from Capital Receipts Reserve	560		143	
Transfer from Capital Grants Unapplied Reserve	0		50	
		21,914		19,832
Disposal of assets	(5,417)		(3,171)	
Repayment of capital loan	(34)		(1,168)	
Impairment of capital loan	0		(23)	
Depreciation of non-current assets	(1,962)		(2,005)	
Amortisation of intangible assets	(56)		(46)	
Impairments	(2,825)		68	
Revenue expenditure funded from capital	(560)		(193)	
		(10,854)		(6,538)
Balance at end of year		159,603		172,897

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 72 to 75).

The surplus on the Council Tax part of the Collection Fund at 31st March 2019 was £1.938M, of which the Council's share is £211,000. The deficit in respect of business rates was £2.283M of which the Council's share was £913,000.

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 2019 which cannot be taken until later years was £3,000.

	2017/18 £'000	2018/19 £'000
Share of Council Tax Surplus b/f	246	225
Movement in the year	(21)	(14)
Share of Council Tax Surplus c/f	225	211
Share of Business Rates' Surplus b/f	5	680
Movement in the year	675	(1,593)
Share of Business Rates' Surplus / (Deficit) c/f	680	(913)
Renewable Energy Business Rates retained b/f	544	316
Movement in year	(228)	(313)
Renewable Energy Business Rates retained c/f	316	3
Balance at end of year	1,221	(699)

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 £168.505M (2017/18 £157.284M). This represents the total equity of the Council.

The net assets figure is net of the deficit on the pension fund of £56.56M (2017/18 £58.52M) (see note 14 above). Without this provision the Council's net assets would be £225.065M (2017/18 £215.804M).

The effect of the pensions reserve is to reduce the Council's net worth by 25.13% (2017/18 – 27.12%).

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.

Financial Instrument Balances

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

	31st March 2018		31st March 2019	
	Current £'000	Long-Term £'000	Current £'000	Long-Term £'000
Financial Assets:				
<u>Investments</u>				
Fair Value through Profit or Loss	0	250	0	250
Amortised Cost	38,922	17,086	40,562	5,062
<u>Debtors</u>				
Amortised cost - Sundry Debtors	8,990	769	8,080	792
Amortised cost - Housing	63	0	63	0
Amortised cost - Car Leasing and Loans	90	0	80	0
Financial Liabilities:				
<u>Creditors</u>				
Amortised cost - Borrowings	0	0	(194)	(5,722)
Amortised cost - Sundry Creditors	(5,090)	0	(4,337)	0

Reclassification and Remeasurement of Financial Assets at 1st April 2018

There is no effect on the carrying amounts of the balances due to reclassification and remeasurement following the adoption of IFRS9 Financial Instruments by the Code of Practice on Local Authority Accounting.

Fair Value of Financial Instruments that are Measured at Fair Value through Profit and Loss

The Council has a shareholding in HCB Holding Ltd which was previously classified as an unquoted equity investment held at cost. The investment has been reclassified to fair value through profit and loss as there are no contractual payments comprising interest or principal. 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. The 250 A Class Common Shares are measured at their cost of £1,000 per share (being the par value of £1 plus a premium of £999 per share) as a best estimate of fair value.

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

Except for the financial assets carried at fair value (described in the table above), all other financial assets and liabilities held by the Council 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
- For loans from the PWLB payable, PWLB prevailing market rates have been applied to provide the fair value under PWLB debt redemption procedures.

The fair values are calculated as follows:

Financial assets	31st March 2018		31st March 2019	
	Carrying Value	Fair Value	Carrying Value	Fair Value
	£'000	£'000	£'000	£'000
Cash	5	5	5	5
Cash Equivalents	8,634	8,634	10,557	10,557
Deposits with banks and building societies	30,911	30,915	18,493	18,493
Short term Loans and Receivables	8,011	8,011	22,069	22,069
Long term Loans and Receivables	17,086	17,111	5,062	5,110
Total	64,647	64,676	56,186	56,234

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 2019) attributable to the commitment to receive interest above market rates.

Financial liabilities	31st March 2018		31st March 2019	
	Carrying Value	Fair Value	Carrying Value	Fair Value
	£'000	£'000	£'000	£'000
Borrowings - PWLB debt	0	0	(5,916)	(6,018)
Total	0	0	(5,916)	(6,018)

The fair value of the liabilities is greater than the carrying amount because the Council's loan is a fixed rate loan where the interest rate payable is higher than the rates available for similar loans in the market at the Balance Sheet date. This shows a notional future loss (based on economic conditions at 31st March 2019) arising from a commitment to pay interest to lenders above current 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 instruments.

Items of income, expense, gains or losses

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

	2017/18 £'000	2018/19 £'000
Interest received	528	595
Interest paid	0	(16)

32. Nature and Extent of Risks Arising From Financial Instruments

The Council's activities expose it to a variety of financial risks. The key risks are:

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

Overall procedures for managing risk

The Council's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the resources available to fund services. Risk management is carried out by the treasury management team, under policies approved by the Council prior to the commencement of each financial year in the Treasury Management Strategy and Annual Investment Strategy.

The Treasury Management Strategy and Annual Investment Strategy was approved by Council in February 2018 and is available on the Council's website.

Credit Risk**Treasury Investments**

Credit risk arises from deposits with banks and building societies, as well as credit exposures to the Council's customers.

The risk is minimised through 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 and Annual Investment Strategy. The Council also had a policy throughout the year of limiting deposits with institutions to a maximum of £15M.

The Council's maximum exposure to credit risk in relation to its investments cannot be assessed generally as the risk of any financial institution failing to make interest payments or repay the principal sum will be specific to each individual institution. With regard to deposits with banks and building societies, the Council has no recent experience of defaults. Although a risk of irrecoverability applies to all of the Council's deposits, there was no evidence at 31st March 2019 that this was likely to crystallise and the credit impairment losses have been assessed as nil.

The following table summarises the credit risk of the Council's investment portfolio at 31st March 2019 by credit rating.

Credit rating	£'000s
AA	27,130
A+	7,950
A	21,101
Shares in unlisted company	250
Total	56,431

Trade Receivables

As per the requirements of the Code, Trade Receivables excludes balances arising from statutory functions (e.g. Council Tax and Non Domestic Rates) as they have not arisen from contractual trading activities.

Trade debtors are not subject to internal credit rating and are collectively assessed for the purposes of calculating expected credit losses using a provision matrix based on historical data.

The Council's maximum exposure to credit risk is shown on the following table.

	Amount at 31st March 2019	Historical Experience of Default	Historical Experience Adjusted for Market Conditions	Estimated Maximum Exposure to Default
	£'000	%	%	£'000
Long Term Debtors	792	0.00	0.00	0
Sundry Debtors	8,080	16.06	16.06	1,298
Housing Debtors	63	88.89	88.89	56
Other Debtors	80	20.00	20.00	16
Total	9,015			1,370

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 2018	31st March 2019
	£'000	£'000
Less than three months	1,286	614
Three months to one year	214	84
More than one year	111	115
Total	1,611	813

Liquidity Risk

The Council has a comprehensive cash flow management system that seeks to ensure that cash is available as needed and has ready access to borrowing from the Public Works Loans Board (PWLB). There is a minimal risk that the Council will not be able to meet its commitments under financial instruments.

The Council has a loan from the PWLB on a repayment basis. The maturity analysis is as follows:

	2017/18	2018/19
	£'000	£'000
Less than one year	0	179
Between one and five years	0	755
Between five and ten years	0	1,043
Between ten and fifteen years	0	1,166
Between fifteen and twenty years	0	1,302
Between twenty and twenty five years	0	1,455
Total	0	5,900

All trade and other payables are due to be paid in less than one year.

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 generally invest in equity shares but does have a small shareholding in HCB Holding Ltd as detailed in note 31. The £250,000 shares are classified at fair value through profit and loss, meaning that all movements in the fair value of the shares will impact on gains and losses recognised in the Surplus or Deficit on Provision of Services.

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 2018/19 £273,600 (2017/18 £317,000) in grants was paid to voluntary organisations in which nine Councillors were officially appointed. The grants were made with proper consideration of declarations of interest. The relevant Members did not take part in any discussion or decision relating to the grants. The most significant of these grants are reported annually to Cabinet prior to the start of the financial year.

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 2019 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 2018/19 the income generated from this source was £699,000 (2017/18 £889,000). 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.

Pension Fund

GMP Indexation and Equalisation

In March 2016 the Government introduced an ‘interim solution’ which made the LGPS responsible for paying the full increases on Guaranteed Minimum Pensions (GMPs) for individuals reaching State Pension Age (SPA) before December 2018. This cost was accounted for in 2017. In January 2018 Government extended this to individuals reaching SPA before 5 April 2021, passing further cost to the LGPS. This has not yet been accounted for.

Separately, in October 2018 the High Court ruled in the Lloyds Bank case that equalisation for the effect of unequal GMPs is required. HM Treasury responded to confirm that public sector schemes already have a method to equalise guaranteed minimum pension benefits.

Aon, as the Fund’s actuary has estimated that the potential IAS 19 accounting liability of full GMP indexation (and equalisation) for members reaching State Pension Age from 6 December 2018 to be in the region of 0.3% of the defined benefit obligation (£518,000). This estimate has been calculated for a typical LGPS Fund and is indicative of an additional liability for a typical employer and does not reflect the individual characteristics of the Council’s membership. Costs could be higher for employers with a membership that is older than average (who predominantly accrued service between 1978 and 1997 when GMPs were being accrued).

37. Events After the Balance Sheet Date

Pension Fund

In December 2018 the Court of Appeal ruled against the Government in the ‘McCloud/Sargeant’ judgement which found that the transitional protection arrangements put in place when the firefighters’ and judges’ pension schemes were reformed were age discriminatory. On 27th June 2019, the Supreme Court rejected the Government’s request to appeal this judgement.

The additional ‘McCloud’ liability is calculated by multiplying 3.2% by the value of the active liabilities at 31st March 2019. This has resulted in an additional liability of £1.62M in the pension fund and is shown as a Past Service Cost.

38. Date Accounts Authorised for Issue

The pre-audited Statement of Accounts was authorised for issue by the Head of Finance on 31st May 2019.

The audited Statement of Accounts was approved by the General Purposes Committee on 30th July 2019.

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				
	2017/18		2018/19	
	£'000	£'000	£'000	£'000
<u>COUNCIL TAX</u>				
Opening Balance		2,175		2,019
<u>Income</u> Council Tax		73,857		79,201
<u>Expenditure</u>				
Hampshire County Council	53,613		57,741	
Hampshire Fire Authority	3,021		3,161	
Hampshire Police and Crime Commissioner	7,829		8,532	
Test Valley Borough Council	6,747		7,095	
Parishes	1,403		1,509	
Payments to preceptors in respect of previous surpluses	1,170		1,004	
Increase in Bad Debt Allowance	230		240	
Total Expenditure		74,013		79,282
Council Tax Deficit For The Year		(156)		(81)
Closing Balance		2,019		1,938
<u>BUSINESS RATES</u>				
Opening Balance		13		1,700
<u>Income</u> Business Ratepayers		54,706		55,410
<u>Expenditure</u>				
Central Government	25,646		27,101	
Hampshire County Council	4,616		4,878	
Hampshire Fire Authority	513		542	
Test Valley Borough Council	20,517		21,682	
Payments to preceptors in respect of forecast surplus	1,586		1,019	
Increase/(reduction) in provision for backdated appeals	(1,125)		2,963	
Transitional Protection Payments due to / (from) Central Govt	207		(132)	
Increase in Bad Debt Allowance	196		696	
Cost of Collection Allowance	188		187	
Amount retained in respect of renewable energy schemes	675		457	
Total Expenditure		53,019		59,393
Business Rates' Surplus / (Deficit) For The Year		1,687		(3,983)
Closing Balance		1,700		(2,283)
<u>COLLECTION FUND SUMMARY</u>				
Surplus / (Deficit) for the year		1,531		(4,064)
Balance at the start of the year		2,188		3,719
Surplus / (Deficit) at the end of year		3,719		(345)

NOTES TO THE COLLECTION FUND

Business Rates

The starting point for the income from Business Ratepayers is the Rateable Value of each hereditament multiplied by the (national) Business Rating Multiplier for the year, which was 49.3p in 2018/19.

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
- Supporting Small Businesses Reliefs
- Public Houses Reliefs and
- Bad debts

The total non-domestic rateable value at the 31st March 2019 was £137,108,078.

The Collection Fund balance on the 31st March 2019 in respect of Non Domestic Rates (NDR) was a deficit of £2.283M 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 deficit 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 2019/20 and 2020/21.

The payments to the major preceptors in 2018/19 are shown in the following table.

Non Domestic Rates Collection Fund				
2017/18				2018/19
Total	Major Preceptors	Precept	Share of 2017/18 Forecast Surplus	Total
£'000		£'000	£'000	£'000
26,439	Central Government	27,101	509	27,610
4,759	Hampshire County Council	4,878	92	4,970
529	Hampshire Fire Authority	542	10	552
21,151	Test Valley Borough Council	21,682	408	22,090
52,878	Total	54,203	1,019	55,222

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 48,079 for 2018/19.

The Collection Fund balance on the 31st March 2019 in respect of Council Tax was a surplus of £1.938M 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 11.03% for 2018/19 and 10.74% for 2019/20) and will be included in the Council Tax calculations for 2019/20 and 2020/21.

The payments to the major preceptors in 2018/19 are shown in the following table.

Council Tax Collection Fund				
2017/18		2018/19		
	Major Preceptors	Precept	Share of 2017/18 Surplus	Total
£'000		£'000	£'000	£'000
54,473	Hampshire County Council	57,741	741	58,482
3,071	Hampshire Fire Authority	3,161	42	3,203
7,956	Hampshire Police & Crime Commissioner	8,532	108	8,640
6,880	Test Valley Borough Council	7,095	113	7,208
72,380	Total	76,529	1,004	77,533

COUNCIL TAX BASE - ANALYSIS OF PROPERTIES

BAND	A*	A	B	C	D	E	F	G	H	TOTAL
Full Charge	0	1,147	4,870	9,467	7,449	6,558	4,026	3,095	443	37,055
10% Discount	0	0	0	0	0	0	0	0	0	0
25% Discount	0	1,367	4,077	4,242	2,553	1,504	674	490	44	14,951
50% Discount	0	87	11	9	10	14	16	21	4	172
100% Exempt	0	178	163	603	292	163	103	70	4	1,576
50% Premium	0	8	10	7	2	3	3	3	0	36
Net Adjustment for Properties Charged at a Lower Band	1	27	47	0	(11)	(33)	9	(25)	(15)	0
Total Number of Properties	0	2,814	9,178	14,328	10,295	8,209	4,831	3,654	480	53,789
Chargeable Number of Properties	1	2,681	9,110	13,782	10,027	8,046	4,755	3,573	463	52,438
Equivalent Number of Properties after discounts, exemptions, premiums and disabled relief	1	2,282	8,041	12,663	9,350	7,631	4,562	3,428	448	48,406
Ratio to Band D	5/9	6/9	7/9	8/9	1	11/9	13/9	15/9	2	
Band D Equivalents	1	1,521	6,254	11,256	9,350	9,327	6,590	5,713	896	50,908
Provision for Council Tax Support										(3,194)
Provision for Bad Debts										(395)
Crown Contributions										760
Total Band D Equivalents										48,079

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.
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 Allowance	An allowance that is made against income that is due to the Council that it is considered is unlikely to be recovered.
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 2018/19

Scope of responsibility

1. 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.
2. 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.
3. 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

4. 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.
5. 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.

6. The governance framework has been in place at the Council for the year ended 31 March 2019 and will continue to be developed during the coming year.

The governance framework

7. The key elements of the systems and processes that comprise the Council's governance arrangements are as follows:
8. The Council has fulfilled the following key roles (now formally adopted as part of the Local Code of Governance):
 - a. To promote the well-being of the area and provide leadership to the community;
 - b. 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;
 - c. To be accountable and provide stewardship for the use of public funds and resources;
 - d. 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"

9. 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.
10. 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.
11. 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.

12. Work on developing the Draft Corporate Plan for 2019-2023 was undertaken during 2018/19 with Councillors taking an active and collaborative role in the process. This informed the setting of the Council's future priorities and is supported by a robust evidence base taking into account the views of over 2000 local residents, external influences and statistical bases.
13. 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.
14. 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.
15. The Council has in place a Medium Term Financial Strategy, updated annually, which supports the aims of the Corporate Plan.
16. 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.
17. 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.
18. 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.

19. 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.
20. 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>).
21. The Council has established a Disability Focus Group that contributed towards the development of the new Corporate Plan. Its members have agreed to help the Council and its partners on an ongoing basis.
22. 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 2018 identified that Test Valley Borough Council is compliant with Section 11 of the Children Act.
23. The Council's approach to risk management is outlined in its Risk Management Strategy. Corporate risks are reviewed on a quarterly basis by the Council's Service Performance Boards 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.

24. 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

- a. 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.
- b. To consider summaries of specific internal audit reports as requested.
- c. To consider reports dealing with the management and performance of the providers of internal audit services.
- d. To consider a report from internal audit on agreed recommendations not implemented within a reasonable timescale.
- e. To consider the external auditor's annual letter, relevant reports, and the report to those charged with governance.
- f. To consider specific reports as agreed with the external auditor.
- g. To comment on the scope and depth of external audit work and to ensure it gives value for money.
- h. To commission work from internal and external audit.

Regulatory Framework

- i. To maintain an overview of the Council's constitution in respect of contract standing orders, financial regulations and codes of conduct and behaviour.
- j. To review any issue referred to it by the chief executive or a director, or any Council body.
- k. To monitor the effective development and operation of risk management and corporate governance in the Council.
- l. To monitor Council policies on whistleblowing and the anti-fraud, anti-corruption and anti-bribery strategies and the Council's complaints process.
- m. To oversee the production of the authority's Annual Governance Statement and to recommend its adoption.
- n. To consider the Council's arrangements for corporate governance and agreeing necessary actions to ensure compliance with best practice.
- o. To consider the Council's compliance with its own and other published standards and controls.

25. 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.

26. 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.
27. The Council's Constitution contains a Confidential Reporting Code for Employees which safeguards "whistle-blowers" who raise 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.
28. 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.
29. 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.

30. 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.
31. The Councillor Member and Community Development Group has helped develop an extensive induction programme for the new intake of councillors that were elected in May 2019.
32. All officers also receive induction training and appropriate professional and skills training and development identified, for instance, through annual performance discussions.
33. Work has commenced during 2018/19 to develop a People Strategy to shape the cultural direction and people management practices for the future to enable the Council to achieve its ambitions over the next 3-5 years. Whilst being able to respond to the changing needs of local government and the borough's residents this will form part of the Council's Corporate Framework with close links to the Corporate Plan and Medium Term Financial Strategy.
34. 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. A Draft External Communications Strategy has been produced to support the new Corporate Plan.

35. 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

36. 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.
37. The effectiveness of the governance framework is maintained and reviewed through a number of mechanisms and processes:
38. 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.
39. 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.
40. 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.
41. 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.
42. 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.

43. 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.
44. The Council participated in an LGA Peer Challenge in October 2018 providing an independent review across the following areas:
 - a. Understanding of the local place and priority setting
 - b. Leadership of Place
 - c. Organisational leadership and governance
 - d. Financial planning and viability
 - e. Capacity to deliver
45. In addition to the five core questions, the Council asked the team to consider the Council's approach to inclusive growth and development, particularly within the principal towns of Romsey and Andover.
46. The Peer Team published their findings and recommendations through a feedback report. The Council was recognised as being well-led and effectively managed, with the Council's current financial position comparatively strong. The Council was found to be self-aware with good officer/member relationships with a robust approach to strategic planning in place. The peer team felt that the Council could be more confident in communicating the contribution it is making to the communities it serves.
47. The Council has considered the findings and has produced an action plan approved by Cabinet which provides a focus for how the council will take forward the recommendations highlighted by the peer team. A copy of the report can be found via the following link. [LGA Peer Review 2018](#).
48. An external assessment of the internal audit function's conformance with the Public Sector Internal Audit Standards (PSIAS) was carried out in March 2019. The Public Sector Internal Audit Standards are a mandatory requirement, the objectives of which are to:

- a) define the nature of internal auditing within the UK public sector,
- b) set basic principles for carrying out internal audit in the UK public sector,
- c) establish a framework for providing internal audit services, which add value to the organisation, leading to improved organisational processes and operations, and
- d) establish the basis for the evaluation of internal audit performance and to drive improvement planning.

49. The assessment concluded that the function “generally” or “partially” conforms with 82.3% of the standards. Whilst there are gaps in some key areas, the assessment found clear evidence that “the work the Service has delivered is effective; especially around risk and performance. It contributes to, and has influence in, the Authority on these areas. It is a highly respected Service that is engaged with the Organisation and which provides on-going support in key areas, as well as effective assurance on controls”. A detailed action plan has been compiled to address the gaps and to ensure the function is fully effective both strategically and operationally.

50. Assurance Opinion:

The Deputy Chief Internal Auditor of Portsmouth City Council has made the following assessment:

Based on judgements made since I have been in post (November 2018) and the results of the External Public Sector Internal Audit Standards (PSIAS) Assessment (April 2019), I am able to provide a qualified opinion on the effectiveness of the control framework and governance processes at Test Valley Borough Council.

The results of the audits undertaken in 2018/19 have resulted in 90% achieving Full or Substantial assurance. In addition, the completion or progress of follow up actions was 78%.

Based on these results only, I am able to provide Substantial Assurance on the effectiveness of the control framework and governance processes at Test Valley Borough Council. This opinion is qualified as a result of the PSIAS assessment which highlighted 8 areas of non-compliance as they impact upon the Annual Audit Opinion in the following ways:

- ***Assurance mapping has not occurred and therefore the opinion is based solely on the Internal Audit work.***
- ***I am unable to provide assurance that a strategic framework is in place to deliver an effective Internal Audit Service***
- ***Nor am I able to confirm whether appropriate resources have been allocated to provide the level of Internal Audit review needed for this Authority.***

- ***Concerns were raised regarding the completeness and methodology of the Audit Universe. Therefore I am unable to place assurance that the composition of the 2018/19 Audit Plan was sufficiently risk based and therefore contained sufficient scope of the Authority's key risks.***

51. On the basis of Internal Audit work completed in 2018/19 only, the Deputy Chief Internal Auditor of Portsmouth City Council has provided a “substantial assurance” in respect of the Council’s risk management, control and governance arrangements but this opinion has been qualified as a result of the PSIAS assessment. “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.
52. 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 2017/18. 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><u>LGA – Peer Challenge:</u> The Council participated in a Local Government Association (LGA) Peer Challenge in October 2018. The findings have been considered and an action plan produced and approved by Cabinet which focuses on how the Council will take forward the recommendations highlighted by the Peer Team.</p>	<p>To deliver the action plan produced to take forward the recommendations highlighted in the LGA Peer Review Report.</p>	<p>31/03/20</p>	<p>Andy Ferrier</p>
<p><u>IT Shared Services – Next Steps:</u> The Shared IT Services team spanning Test Valley Borough and Winchester City councils has been in place since 2010 and is today delivering a robust and stable service to around 1000 users. This includes joint procurement and system implementations as well as business change projects. The Councils are now seeking to build on this success and to gain new revenue for the councils by offering an IT Service on a commercial basis to new organisations.</p>	<p>To recruit a suitably skilled and experienced Head of IT Shared Service to lead the Service in developing our commercial offer.</p> <p>Having established themselves in post, for the newly appointed Head of IT Shared Service to proactively seek out and explore suitable commercial opportunities for the Councils.</p> <p>To explore, conduct options appraisal and recommend appropriate trading mechanisms in response to</p>	<p>Recruitment 30/04/19</p> <p>Other actions dependent upon above date.</p>	<p>Carol Moore</p>

Issue	Action to be Taken	Timescale	Lead Officer
	commercial opportunities.		
<p><u>Public Sector Internal Audit Standards (PSIAS):</u> An external assessment of the internal audit function's conformance with the PSIAS carried out in March 2019 concluded that the Internal Audit function "generally" or "partially" conforms with 82.3% of the standards. As a result, a qualified but substantial assurance opinion has been given in respect of the Council's risk management, control and governance arrangements. A detailed action plan has been compiled to address the gaps in meeting the required standards.</p>	<p>Implement the action plan to ensure the internal audit function is fully effective both strategically and operationally.</p>	<p>31/03/20</p>	<p>Will Fullbrook</p>