

NOTICE OF MEETING

Meeting: AUDIT COMMITTEE

Date and Time: FRIDAY, 25 SEPTEMBER 2015, AT 10.00 AM*

Place: COMMITTEE ROOM 1, APPLETREE COURT,
LYNDHURST

Telephone enquiries to: Lyndhurst (023) 8028 5000
023 8028 5588 - ask for Andy Rogers
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PUBLIC PARTICIPATION:

***Members of the public may speak in accordance with the Council's public participation scheme:**

- (a) immediately before the meeting starts, on items within the Cabinet's terms of reference which are not on the public agenda; and/or
 - (b) on individual items on the public agenda, when the Chairman calls that item.
- Speeches may not exceed three minutes. Anyone wishing to speak should contact the name and number shown above.

Dave Yates
Chief Executive

Appletree Court, Lyndhurst, Hampshire. SO43 7PA
www.newforest.gov.uk

This Agenda is also available on audio tape, in Braille, large print and digital format

AGENDA

Apologies

1. MINUTES

To confirm the minutes of the meeting held on 26 June 2015 as a correct record.

2. DECLARATIONS OF INTEREST

To note any declarations of interest made by members in connection with an agenda item. The nature of the interest must also be specified.

Members are asked to discuss any possible interests with Democratic Services prior to the meeting.

3. PUBLIC PARTICIPATION

To note any issues raised during the public participation period.

4. AUDIT RESULTS REPORT 2014/15 (EXTERNAL AUDITOR) (Pages 1 - 22)

To note the external auditor's results report for 2014/15.

5. ANNUAL FINANCIAL REPORT (STATEMENT OF ACCOUNTS) 2014/15 (Pages 23 - 124)

To approve the Statement of Accounts 2014/15.

6. ANNUAL GOVERNANCE STATEMENT 2014/15 (Pages 125 - 134)

To approve the Annual Governance Statement 2014/15.

7. AUDIT COMMITTEE REPRESENTATION LETTER (Pages 135 - 138)

To receive the representation letter to the External Auditor before being signed by the Chairman and Section 151 Officer.

8. PROGRESS AGAINST THE 2015/16 AUDIT PLAN (Pages 139 - 146)

To note the progress made against the Internal Audit Plan 2015/16 and progress made against high priority audit recommendations.

9. TREASURY MANAGEMENT MID-YEAR MONITORING REPORT 2015/16 (Pages 147 - 156)

To receive the Treasury Management mid-year monitoring report for 2015/16.

10. AUDIT COMMITTEE - WORK PLAN 2015/16 (Pages 157 - 158)

To note the Committee's future work plan.

11. DATES FOR AUDIT COMMITTEE MEETINGS IN 2016/17

RECOMMENDATION:

To agree the following suggested dates for meetings 2015/16 (Fridays at 10.00 a.m.)

24 June 2016
23 September 2016
27 January 2017
24 March 2017

12. ANY OTHER ITEMS WHICH THE CHAIRMAN DECIDES ARE URGENT

To:	Councillors:	Councillors:
	A D O'Sullivan (Chairman)	J D Heron
	J G Ward (Vice-Chairman)	Mrs E L Lane
	W G Andrews	R A Wappet
	M R Harris	C A Wise

New Forest District Council

Audit Committee

For the year ended 31 March 2015

Audit Results Report – ISA (UK and Ireland) 260

September 2015

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Section 1

Executive summary

Executive summary – key findings

Audit results and other key matters

The Audit Commission's Code of Audit Practice (the Code) requires us to report to those charged with governance – the Audit Committee– on the work we have carried out to discharge our statutory audit responsibilities together with any governance issues identified.

This report summarises the findings from the 2014/2015 audit which is substantially complete. It includes the messages arising from our audit of your financial statements and the results of the work we have undertaken to assess your arrangements to secure value for money in your use of resources.

Financial statements

- ▶ As of 14 September 2015, we expect to issue an unqualified opinion on the financial statements.
- ▶ Our audit results demonstrate, through the very few matters we have to communicate, that the Council has continued to prepare its financial statements well.

Value for money

- ▶ We expect to conclude that you have made appropriate arrangements to secure economy, efficiency and effectiveness in your use of resources.
- ▶ We have made recommendations, in section 4, on how the Council's governance framework may be improved.

Whole of Government Accounts

- ▶ We are not expecting to report any significant matters to the National Audit Office (NAO) regarding the Whole of Government Accounts submission.

Audit certificate

- ▶ The audit certificate is issued to demonstrate that the full requirements of the Audit Commission's Code of Audit Practice have been discharged for the relevant audit year.
- ▶ We expect to issue the audit certificate at the same time as the audit opinion.

Section 2

Extent and purpose of our work

Extent and purpose of our work

The Council 's responsibilities

- ▶ The Council is responsible for preparing and publishing its Statement of Accounts, accompanied by the Annual Governance Statement.
- ▶ In the Annual Governance Statement, the Council reports publicly on the extent to which it complies with its own code of governance, including how it has monitored and evaluated the effectiveness of its governance arrangements in the year, and on any planned changes in the coming period.
- ▶ The Council is also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Purpose of our work

Our audit was designed to:

- ▶ express an opinion on the 2014/2015 financial statements and the consistency of other information published with them;
- ▶ report on an exception basis on the Annual Governance Statement;
- ▶ consider and report any matters that prevent us being satisfied that the Council had put in place proper arrangements for securing economy, efficiency and effectiveness in the use of resources (the Value for Money conclusion); and
- ▶ discharge the powers and duties set out in the Audit Commission Act 1998 and the Code of Audit Practice

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

As a component auditor, we also follow the NAO group instructions and report the results on completion of the whole of government accounts work through the Assurance Statement to the NAO and to the Council .

This report is intended solely for the information and use of the Council . It is not intended to be and should not be used by anyone other than the specified party.

Section 3

Addressing audit risks

Addressing audit risks – significant audit risks

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

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

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Audit risk identified within our audit plan	Audit procedures performed	Assurance gained and issues arising
<p>Risk of management override</p> <p>As identified in ISA (UK and Ireland) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.</p> <p>We identify and respond to this fraud risk on every audit engagement.</p>	<p>Our approach focussed on:</p> <ul style="list-style-type: none"> • testing the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements; • reviewing accounting estimates for evidence of management bias; and • evaluating the business rationale for significant unusual transactions. 	<p>We gained assurance that the risk of management override was sufficiently low.</p> <p>We did not identify any issues when testing the journal entries, accounting estimates and any unusual transactions.</p>
<p>Calculation of the non-domestic rates (NDR) appeals provision</p> <p>We reclassified this as a new significant risk following our review of the 2014/15 financial statements, which showed that the NDR Provision increased to:</p> <ul style="list-style-type: none"> ○ £4.401m (£2.860m in 2013/14) in Note 23 of the Council's accounts; ○ £11.002m (£7.149m in 2013/14) in the Collection Fund. <p>This is a national issue caused by the introduction, in the autumn budget statement, of a cut-off date of 31 March 2015 for retrospective appeals, and the consequential increase in the number of appeals received in the final quarter of the financial year. The Council has estimated that some £3.6 million of repayments are expected to be due to medical centres, of which 20% is to be paid by the Council.</p>	<p>Our approach focussed on:</p> <ul style="list-style-type: none"> • testing the reasonableness of the NDR appeals provision in the preparation of the financial statements; • reviewing the underlying source systems and documents used in the calculation of the appeals provision; and • comparing the Council's methodology and outcome with other councils through the EY benchmarking exercise. 	<p>The judgements involved in the methodology for determining the appeals provision are reasonable.</p> <p>We found that the appeals provision was overstated in the Collection Fund by £0.7 million due to a calculation error.</p> <p>Our work around benchmarking did not identify the Council as an outlier.</p>

Addressing audit risks – other audit risks

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

Audit risk identified within our Audit Plan	Audit procedures performed	Assurance gained and issues arising
Other audit risks		
<p>New NDR system in year</p> <p>The Council changed its NDR system from Civica to Northgate in January 2015. This is a fundamental system which collects some £64 million in business rates in the year. We tested whether the system migration has been successful.</p>	<p>Our approach focussed on:</p> <ul style="list-style-type: none"> • reviewing the work of internal audit on the change of NDR system in year; and • testing that the data migration from the old system to the new system was complete and accurate. 	<p>We gained assurance from the outcome of internal audit's work which identified no significant issues from the change of NDR system in year.</p> <p>Our testing verified that the the data migration from the old system to the new system was complete and accurate.</p>
<p>Change of bank account</p> <p>The Council changed its bank account provider in December 2014 from the Co-operative Bank to Lloyds. Subsequently some payments were received in another Lloyds client bank account. The February 2015 bank reconciliation had outstanding items which needed to be corrected before the year end.</p>	<p>Our approach focussed on:</p> <ul style="list-style-type: none"> • reviewing the work of internal audit on the change of bank account in year; and • testing the year-end bank reconciliation to ensure all the issues from the change of bank account have been resolved. 	<p>We gained assurance from the outcome of internal audit's work which identified no significant issues from the change of bank account.</p> <p>Our testing of the year-end bank reconciliation confirmed the coding issues from the change of bank account were resolved.</p>

Section 4

Financial statements audit – issues and findings

Financial statements audit – issues and misstatements arising from the audit

Progress of our audit

- ▶ The following areas of our work programme remain to be completed. We will provide an update of progress at the Audit Committee meeting on 25 September 2015:
 - ▶ receipt of a Letter of Representation
- ▶ Subject to the satisfactory resolution of the above items, we propose to issue an unqualified audit report on the financial statements.

Uncorrected misstatements

- ▶ We identified no uncorrected misstatements within the draft financial statements.

Corrected misstatements

- ▶ We identified the following corrected misstatement which was an error in the calculation of the NDR Appeals Provision. This reduced both the:
 - ▶ Collection Fund NDR Appeals Provision by £702,000;
 - ▶ Council's NDR Appeals Provision by £281,000.

Amendments to disclosures

- ▶ Following the audit, the Council has made the following amendment to its disclosure in its financial statements:
 - ▶ Note 1: Accounting Policies – revision of the accounting policy for intangible assets.
 - ▶ Note 48: the trade debtors figure in the financial instruments note was inconsistent with the trade debtors note.
 - ▶ Note 49: The classification of investments in the financial instrument note was inconsistent with the balance sheet.

Other matters

- ▶ As required by ISA (UK&I) 260 and other ISAs specifying communication requirements, we are required to communicate to you significant findings from the audit and other matters that are significant to your oversight of the Council's financial reporting process including the following:
 - ▶ qualitative aspects of your accounting practices; estimates and disclosures;
 - ▶ matters specifically required by other auditing standards to be communicated to those charged with governance. For example, issues about fraud, compliance with laws and regulations, external confirmations and related party transactions;
 - ▶ any significant difficulties encountered during the audit; and
 - ▶ other audit matters of governance interest

Findings

- ▶ The Council prepared a comprehensive set of accounts with good supporting working papers.
- ▶ We would like to thank officers for their prompt responses to audit queries.
- ▶ We have no other matters we wish to report to Members.

Financial statements audit – application of materiality

Our application of materiality

- ▶ When establishing our overall audit strategy, we determined a magnitude of uncorrected misstatements that we judged would be material for the financial statements as a whole.

Item	
Planning Materiality and Tolerable error	<p>We determined planning materiality to be £1.675 million (2014: £1.995 million), which is 2% of gross expenditure reported in the accounts of £83.276 million.</p> <p>We consider gross expenditure to be one of the principal considerations for stakeholders in assessing the financial performance of the Council .</p> <p>We set a tolerable error for the audit. Tolerable error is the application of planning materiality at the individual account or balance level. It is set to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds planning materiality. The level of tolerable error drives the extent of detailed audit testing required to support our opinion.</p> <p>We have set tolerable error at the upper level of the available range because there were no corrected significant errors in the Council 's 2013/14 financial statements and no uncorrected errors.</p>
Reporting Threshold	We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £83,700 (2014: £99,700)

We also identified the following areas where misstatement at a level lower than our overall materiality level might influence the reader. For these areas we developed an audit strategy specific to these areas. The areas identified and audit strategy applied include:

- Remuneration disclosures. We reviewed the senior officer remuneration note and agreed all amounts back to supporting documentation. No issues were noted from this review.
- Related party transactions. We reviewed the related party transaction disclosure and also the related party declarations distributed to the senior management team. No issues were noted from this review.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations.

Financial statements audit – internal control, written representations and whole of government accounts

Internal control

- ▶ It is the responsibility of the Council to develop and implement systems of internal financial control and to put in place proper arrangements to monitor their adequacy and effectiveness in practice. Our responsibility as your auditor is to consider whether the Council has put adequate arrangements in place to satisfy itself that the systems of internal financial control are both adequate and effective in practice.
- ▶ We have tested the controls of the Council only to the extent necessary for us to complete our audit. We are not expressing an opinion on the overall effectiveness of internal control.
- ▶ We have reviewed the Annual Governance Statement and can confirm that:
 - ▶ it complies with the requirements of CIPFA/SOLACE Delivering Good Governance in Local Government Framework; and
 - ▶ it is consistent with other information that we are aware of from our audit of the financial statements.
- ▶ 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.
- ▶ **Risk management arrangements**
 - Risk management, at the Council, is considered as part of service planning and performance reviews with the scrutiny of operational risk registers at a service level. The Council's Executive Management Team last formally considered the Council's Strategic Risk Register on 15 September 2014.
 - The Audit Committee's Terms of Reference states that the Committee is "To monitor the effective development and operation of risk management and governance in the Council". It receives an annual report on Strategic Risk Management in September each year. Interestingly, Treasury management is considered by the Audit Committee every six months.

- The last Risk Management report to the Audit Committee was in September 2014 on the Risk Management Strategy (dated September 2013) and Strategic Risk Register (dated September 2014).
- We understand that there are plans for the Council's Risk Management arrangements to be reviewed, as part of the review of the Corporate Plan, post the May 2015 elections. However, there is no planned progress report to be taken to the September Audit Committee on the development of risk management arrangements even though it is part of the Audit Committee's workplan and duties.
- It would be appropriate for Audit Committee to have a better oversight of the effectiveness of the Council's Risk management arrangements. We suggest that the Audit Committee receive bi-annual reports on Risk Management. The Committee should be kept informed on the progress of the review of the Council's Risk Management Strategy, processes and outcomes, in particular considering how the new arrangements reflect good practice adopted by other councils.

Request for written representations

- ▶ We have requested a management representation letter to gain management's confirmation in relation to a number of matters of judgment.

Whole of Government Accounts

- ▶ Alongside our work on the financial statements, we also review and report to the National Audit Office on your Whole of Government Accounts return. The extent of our review and the nature of our report are specified by the National Audit Office.
- ▶ We are currently concluding our work in this area and will report any matters that arise to the Audit Committee.

Section 5

Arrangements to secure economy, efficiency and effectiveness

Arrangements to secure economy, efficiency and effectiveness

The Code of Audit Practice (2010) sets out our responsibility to satisfy ourselves that the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. In examining the Council's corporate performance management and financial management arrangements, we have regard to the following criteria and focus specified by the Audit Commission.

Criterion 1 – arrangements for securing financial resilience

- ▶ 'Whether the Council has robust systems and processes to manage financial risks and opportunities effectively, and to secure a stable financial position that enables it to continue to operate for the foreseeable future'
- ▶ We identified one significant risk in relation to this criterion, in terms of the "Delivery of a Sustainable Medium Term Financial Plan".
- ▶ Our approach focused on:
 - Assessment of whether the Council has good systems and processes in place to manage its financial risks and opportunities effectively.
 - Assessing the robustness of financial plans, including the assumptions made in the Medium Term Financial Plan (MTFP).
- ▶ In summary, we found that the Council has:
 - successfully delivered savings in 2014/15 through improved productivity and therefore contributed more than planned to its healthy level of reserves; and
 - produced a robust MTFP, underpinned by reasonable assumptions, to continue to manage its financial risks and opportunities in the future.
- ▶ We have no issues to report in relation to this criterion. We discuss our findings in more detail overleaf.

Criterion 2 – arrangements for securing economy, efficiency and effectiveness

- ▶ 'Whether the Council is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity'
- ▶ We did not identify any significant risks in relation to this criterion.
- ▶ Our approach focused on:
 - Reviewing the Audit Commission's value for money profile data to understand how well the Council continues to deliver services in the context of reduced funding.
 - Reviewing the effectiveness of the Council's risk management arrangements, including a review of risk registers and the potential impact of assessed risks.
- ▶ We found that the Council:
 - continues to deliver its services, as outlined in its corporate plan, with less funding; and
 - has adequate risk management arrangements as risk management is built into service planning and performance with scrutiny of risk registers at a service level.
- ▶ Our work did not identify any other matters relating to aspects of your corporate performance and financial management framework which are not covered by the scope of the two specified criteria above.

Addressing audit risks – significant VFM risks

We reported VFM Financial Resilience as an “Other Risk” in the Audit Plan we presented to you on 26 June. However, we reclassified the risk as significant during the fieldwork phase of our audit in July as we found that the savings requirements for next three years of £2.454 million is greater than our planning materiality of £1.675 million.

A significant audit risk, in the context of the value for money conclusion, is the risk that the auditor may issue the wrong value for money conclusion. Where we identify a significant value for money conclusion risk we undertake additional audit work to enable us to reach an appropriate conclusion.

Here, we set out how we have gained audit assurance over this issue.

Significant VFM risk identified	Procedures performed	Assurance gained and issues arising
Financial Resilience - Delivery of a Sustainable Medium Term Financial Plan		
<p>Financial challenges continue for the Council with further reductions in the level of central government funding.</p> <p>To meet these challenges, the Council must continue to improve its efficiency and productivity, reduce its costs, and have sustainable financial plans to ensure they are financially resilient.</p>	<p>Our approach focussed on:</p> <ul style="list-style-type: none"> Assessment of whether the Council has good systems and processes in place to manage its financial risks and opportunities effectively. Assessing the robustness of financial plans, including the assumptions made in the Medium Term Financial Plan. 	<ul style="list-style-type: none"> The Council achieved net savings for the 2014/15 year of £1.277 million, some 6% of net expenditure. This allowed additions to earmarked reserves of £300,000 and £977,000 to the capital programme reserve. The total of the Council's capital programme reserve is at a healthy level with funds of some £9.957 million set aside from the General Reserve to provide for financing of future years' capital projects. The Medium Term Financial Plan, looking to future years, also includes a level of contingency within the assumptions made. We reviewed the MTFP and looked at the MTFP assumptions and the level of detail underpinning the savings identified over medium-term. The MTFP is well documented and underpinned by reasonable assumptions. However, there are risks associated with delivery of savings. Plans have been developed to mitigate these risks for 2015/16. 2016/17 onwards will be more difficult with a £793,000 savings gap in that year and a further £1.661 million savings gap in 2017/18. The outcome of the government spending review in autumn 2015 may also impact on the MTFP. The Council has general fund reserves of £2.036 million, which are available to support service budgets during the continuing uncertain times. Despite the continuing uncertainty of the current economic climate and a further reduction of £1.193 million in government formula funding grant, the Council has set a balanced budget for 2015/16 without needing to increase council tax. This has largely been possible due to the ongoing implementation of the Council's savings and efficiencies programme.

Section 6

Independence and audit fees

Independence and audit fees

Independence

- ▶ We confirm there are no changes in our assessment of independence since our confirmation in our Audit Plan dated 26 June 2015. We complied with the Auditing Practices Board's Ethical Standards for Auditors and the requirements of the Audit Commission's Code and Standing Guidance. In our professional judgement the firm is independent and the objectivity of the audit engagement partner and audit staff has not been compromised within the meaning of regulatory and professional requirements.
- ▶ We confirm that we are not aware of any relationships that may affect the independence and objectivity of the firm that we are required by auditing and ethical standards to report to you.
- ▶ We consider that our independence in this context is a matter that should be reviewed by both you and ourselves. It is therefore important that you consider the facts of which you are aware and come to a view. If you wish to discuss any matters concerning our independence, we will be pleased to do so at the forthcoming meeting of the Audit Committee on 25 September 2015.

- ▶ We confirm that we have met the reporting requirements to the Audit Committee, as 'those charged with governance' under International Standards on Auditing (UK and Ireland) 260 – Communication with those charged with governance. Our communication plan to meet these requirements were set out in our Audit Plan of 26 June 2015.

Audit fees

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

	Proposed final fee 2014/2015	Scale fee 2014/2015	Variation
	£	£	
Audit Fee: Code work	73,076	73,076	0
Grant claims	6,570	5,670	900
Non-Audit work	0	0	0

- ▶ Our fee for the certification of grant claims is based on the indicative scale fee set by the Audit Commission. The variation is due for the NDR claim which was not included in the scale fee. This will be reviewed in light of the work required in 2014/15.
- ▶ We confirm that we have not undertaken any non-audit work outside of the Audit Commission's Audit Code requirements.

Section 7

Appendices

Appendix A – corrected audit misstatements

- ▶ The following corrected misstatements, greater than £83,700 (typically we communicate those corrected misstatements greater than tolerable error unless those charged with governance specifically request us to communicate items above a lower threshold) have been identified during the course of our audit and warrant communicating to you.
- ▶ These items have been corrected by management within the revised financial statements.

Balance sheet and statement of comprehensive income and expenditure

Item of account	Nature	Type	Balance sheet	Comprehensive income and expenditure statement
	Description	F, P, J	Debit/(credit)	Debit/(credit)
1. NDR Appeals Provision – Collection Fund	Reduction in NDR Provision	F		(702,000)
2. NDR Appeals Provision – Collection Fund deficit	Reduction in NDR Provision	F	702,000	
3. NDR Appeals Provision - NFDC accounts	Reduction in Provision (40% share for NFDC)	F		(281,000)
4. NDR Appeals Provision - NFDC accounts	Reduction in Provision (40% share for NFDC)	F	281,000	

Key

- ▶ F – Factual misstatement
- ▶ P – Projected misstatement based on audit sample error and population extrapolation
- ▶ J – Judgemental misstatement

EY | Assurance | Tax | Transactions | Advisory

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ED None

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New Forest
DISTRICT COUNCIL

**Annual
Financial
Report
2014/2015**

NEW FOREST DISTRICT COUNCIL

ANNUAL FINANCIAL REPORT - YEAR ENDED 31ST MARCH 2015

CHAIRMAN OF THE COUNCIL

Councillor Mrs A Hoare

LEADER OF THE COUNCIL

Councillor B Rickman

CHIEF EXECUTIVE Mr D Yates

EXECUTIVE DIRECTOR Mr R Jackson

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STATEMENT OF RESPONSIBILITIES

1. The Authority's Responsibilities

The Authority 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 authority, that officer is the Executive Director;
- manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets;
- approve the statement of accounts.

I confirm that these accounts were approved by Members of the Audit Committee at the meeting held on 25 September 2015.

**Cllr A O'Sullivan
Chairman
Audit Committee**

25 September 2015

2. The Responsible Financial (s151) Officer's Responsibilities

The Executive Director is responsible for the preparation of the Authority'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 of Practice').

In preparing this statement of accounts, the Executive Director has:

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

The Executive Director has also:

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

I certify that the statement of accounts presents a true and fair view of the financial position of New Forest District Council at 31 March 2015 and the income and expenditure for that year ended.

Mr R Jackson (CPFA) – Responsible Financial (s151) Officer 25 September 2015

EXPLANATORY FOREWORD

1. Introduction

The accounts for 2014/15 comprise the following statements:

- **Comprehensive Income and Expenditure Statement**

This statement shows the accounting cost in the year of providing General Fund and Housing Revenue Account services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation and housing rents. The Council raise taxation and rents to cover expenditure in accordance with regulations. The taxation and rents position is shown in the Movement in Reserves Statement.

- **Movement in Reserves Statement**

This statement shows the movement in the year on the different reserves held by the Council, analysed into 'usable reserves' (ie those that can be applied to fund expenditure or reduce local taxation) and other reserves. The surplus or deficit on the Provision of Services line shows the true economic cost of providing the Council's services, details of which are shown in the Comprehensive Income and Expenditure Statement. These are different from the statutory amounts required to be charged to the General Fund balance and the Housing Revenue Account for council tax and dwellings rent setting purposes. The net increase/decrease before Transfers to Earmarked Reserves line shows the statutory General Fund and Housing Revenue Account balance before any discretionary transfers to or from earmarked reserves.

- **Balance Sheet**

This statement shows the value, as at the Balance Sheet date, of the Council's recognised assets and liabilities. The net assets of the Council (assets less liabilities) are matched by reserves held by the Council. Reserves are reported in two categories. The first category is usable reserves i.e. those reserves that the Council may use to provide services, subject to any statutory limitations and the need to maintain prudent reserve levels. The second category is reserves that the Council cannot use to provide services as this category includes reserves that record unrealised gains and losses and reserves that hold timing differences shown in the Movement in Reserves Statement line "Adjustments between accounting basis and funding basis under regulations".

- **Cash Flow Statement**

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

EXPLANATORY FOREWORD

- **Housing Revenue Account (HRA) Income and Expenditure Statement**

This statement shows the economic cost in the year of providing Council Housing services in accordance with generally accepted accounting practices rather than the amount to be funded from rents. The Council charges rents to cover net expenditure incurred in accordance with regulations, which is different from the accounting cost. The increase or decrease in the year, on the basis of which rents are raised, is shown in the HRA section of the Movement in Reserves Statement.

- **Collection Fund**

This is an agent's statement that reflects the statutory obligation of the Council, as a billing Authority, to maintain a separate Collection Fund. The statement shows the transactions of the billing authority in relation to the collection of council tax and non-domestic rates from taxpayers and the distribution of the income to local authorities and the Government. While there is only one Collection Fund, separate statements have been shown for council tax and non-domestic rates due to the additional complexity of non-domestic rates transactions following the introduction of the Retention Scheme in 2013/14

EXPLANATORY FOREWORD

2. Financial Performance during the Year

- **General Fund**

This section provides a summary of General Fund performance for the year in a simplified format that is consistent with the Council's published revenue budget and in a format used for operational budget monitoring throughout the year. All actual figures are included within the Comprehensive Income and Expenditure Statement.

The 2014/15 original net budget requirement for the General Fund was £20.112 million, a reduction of £569,000 from 2013/14. This reduction was achieved after absorbing inflation costs of £774,000 and a reduction in Government Formula Funding Grant of £811,000. The Council's budget anticipated contributing £268,000 to Reserves and provided for no increase in Council Tax.

Net savings and efficiencies in Service expenditure in the year were £793,000, interest earnings exceeded the budget by £165,000 and additional income from business rates was £183,000. Other net budget savings were £46,000, resulting in a net overall saving for the year of £1.187 million. This has enabled an additional £300,000 to be transferred to Earmarked Revenue Reserves and an additional £887,000 to be transferred to the Capital Programme Reserve.

	Original Budget	Actual	Variation
	£000	£000	£000
Service Expenditure	19,300	18,507	(793)
Revenue Financing of Capital	1,052	1,078	26
Interest Earnings (Net)	(240)	(405)	(165)
Net Budget Requirement	20,112	19,180	(932)
Council Taxpayers	(10,682)	(10,682)	0
Collection Fund adjustment from previous years	(280)	(281)	(1)
Non-Domestic Rates Redistribution	(3,598)	(3,781)	(183)
Revenue Support Grant	(4,108)	(4,109)	(1)
Exceptional Item - VAT Refund	0	(53)	(53)
Other Unringfenced Government Grants	(1,712)	(1,729)	(17)
	(268)	(1,455)	(1,187)
Transfer to/(from) Earmarked Revenue Reserves	83	383	300
Transfer to/(from) Capital Programme Reserve	185	1,072	887
	0	(0)	0

EXPLANATORY FOREWORD

• Housing Revenue Account

The Housing Revenue account surplus for 2014/15 was £2.994 million compared with the original approved budget surplus of £1.065 million. This was mainly due to a reduction of £1.448 million in the revenue contribution to fund capital expenditure, as a higher level of capital programme was funded by Capital Receipts and Developers' Contributions in order to maximise resources. In addition, there was an underspend of £188,000 in cyclical maintenance and the budgeted transfer of £220,000 to the General Fund for Rent Rebates was not required as the Council's actual rent charge did not exceed the limit level for subsidy purposes. The balance on the account as at 31 March 2015 was £1.014 million, after allowing for the transfer of £3.200 million to the earmarked Housing Acquisitions and Developments Reserve. The budget for 2015/16 anticipates a surplus position of £1.462 million for the year.

3. Pension Liability

The Council's Balance Sheet shows a net pension liability of £80.763 million. Whilst this has a substantial impact on the net worth of the Council, as recorded in the Balance Sheet, statutory arrangements for funding the deficit mean that the financial position of the Council remains healthy, as the deficit on the scheme will be made good by increased contributions over the working lives of employees. The net liability has increased by £11.290 million from 31 March 2014. This is mainly due to the updating of assumptions used by the actuary to value the Pension Fund assets and liabilities.

4. Long Term Asset Impairments/Revaluations

In 2014/15 net increases in asset values credited to the Income and Expenditure Statement were £39.214 million and £79,000 was transferred from the Revaluation Reserve re previous years but these were offset by capital expenditure not enhancing value of £11.483 million, to arrive at a net impairment credit of £27.810 million. This compares with a net impairment credit of £12.664 million in 2013/14. These items are reflected in the Net Cost of Services. In addition, other assets were increased in value by £688,000 (£559,000 in 2013/14), with the credits, after the previous years' adjustment, being made to the Revaluation Reserve.

	2013/14 £000	2014/15 £000
Income and Expenditure Statement / Capital Adjustment Account		
Revaluation Increases	(22,556)	(39,369)
Revaluation Decreases	136	155
Net Revaluation (Increases)/Decreases	(22,420)	(39,214)
Transfer to/(from) Revaluation Reserve	0	(79)
Capital Expenditure not enhancing asset value	9,756	11,483
Total Income and Expenditure Statement Impairments	(12,664)	(27,810)
Revaluation Reserve		
Revaluation Increases	(902)	(688)
Revaluation Decreases	343	0
Transfer to/(from) Capital Adjustment Account	0	79
Total Revaluation Reserve	(559)	(609)
Total Impairments/Revaluations	(13,223)	(28,419)

EXPLANATORY FOREWORD

5. Capital Expenditure

The level of approved capital expenditure is reviewed regularly throughout the year, to ensure that it is achievable within the estimated resources available. The original budget was £20.672 million, which was supplemented by rephasings of £2.330 million from 2013/14. Other variations during the year reduced the approved programme by £2.101 million to £20.901 million. Actual expenditure of £17.973 million was £2.928 million less than the last approved budget, due to rephasings of £2.728 million of expenditure to 2015/16 and a net under-spend of £200,000 on other projects.

	Original Budget	Expenditure	Variance
	£000	£000	£000
Housing			
Major Repairs	5,193	4,801	(392)
Improvement Grants	742	706	(36)
Enabling Activities	100	71	(29)
Environmental Enhancements	440	468	28
Acquisitions	6,800	7,632	832
New Build	645	769	124
	13,920	14,447	527
Finance and Efficiency			
Rural Broadband	230	115	(115)
Foxhills Cottage	240	0	(240)
Depots	0	2	2
Lymington Harbour Commissioners	3,240	0	(3,240)
Vehicles, Plant and Equipment	1,356	1,704	348
	5,066	1,821	(3,245)
Environment			
Coast Protection	455	546	91
Coast	0	8	8
Cemeteries	0	33	33
	455	587	132
Health and Leisure			
Health and Leisure Centres	0	59	59
Dual Use/Joint Provision	0	23	23
	0	82	82
Developers' Contributions			
Transportation	377	497	120
Leisure	854	521	(333)
Environmental Initiatives	0	18	18
	1,231	1,036	(195)
	20,672	17,973	(2,699)

EXPLANATORY FOREWORD

The actual expenditure of £17.973 million was financed by:

	£000	%
Revenue Contributions to Capital	5,871	32.67
Loan - General	1,704	9.48
Capital Receipts	2,797	15.56
Grant	1,069	5.95
Developers' Contributions	1,270	7.07
Other (HRA Repairs and Maintenance)	5,262	29.27
	17,973	100.00

6. Funding of Future Capital Expenditure

The level of capital expenditure is reviewed and approved annually in accordance with the estimated resources available.

As at 31 March 2015 the Council had reserves/receipts in advance of £33.727 million for capital expenditure purposes (Earmarked Reserves £22.657 million, Developers' Contributions £4.797 million, Capital Receipts Reserve £6.032 million and Capital Grants £241,000). These reserves may be supplemented by loans raised under Prudential Borrowing, grants, new capital receipts and contributions from the revenue accounts.

The approved capital expenditure budget for 2015/16 is £21.244 million, including £12.483 million of schemes to be funded from Housing Revenue Account resources. The estimated total resources for 2015/16 will be sufficient to finance the Council's planned expenditure.

7. Current Economic Climate / Future Service Delivery

The Council's General Fund balance has been retained at £2.036 million, in accordance with the prudent level set out in the Financial Strategy. Other General Fund Earmarked Revenue Reserves are £2.020 million and the Housing Revenue Account balance is £1.014 million after transferring £3.200 million into the earmarked Housing Acquisitions and Developments Reserve in 2014/15. In addition, the Housing Revenue Account ICT Reserve is £216,000 at 31 March 2015.

Despite the continuing uncertainty of the current economic climate and a further reduction of £1.193 million in Government Formula Funding Grant, the Council has been able to set a balanced budget for 2015/16 without needing to increase Council Tax. This has largely been possible due to the continuing implementation of the Council's savings and efficiencies programme.

Major changes in funding for 2016/17 and future years are anticipated following the Government's Local Government Resources Review. The implications cannot be fully assessed at this stage but the Council's current strong financial position and the ongoing efficiencies programme should enable the Council to respond accordingly.

8. Loan to Lymington Harbour Commissioners

In March 2014 the Council made a 10 year loan to the Lymington Harbour Commissioners to enable them to carry out essential River Protection Works. The Council financed this loan by taking out an equivalent loan with the Publics Works Loans Board. All costs incurred in the transactions were met by the Harbour Commissioners. At 31 March 2015 the outstanding loan was recorded as £201,000 short-term debtor/borrowing (2013/14 £201,000) and £1.606 million (2013/14 £1.806 million) long-term debtor/borrowing.

MOVEMENT IN RESERVES STATEMENT

	General Fund Balance	Earmarked General Fund / HRA Reserves	Housing Revenue Account	Capital Programme Reserve	Capital Receipts Reserve	Developers' Contributions Unapplied	Total Usable Reserves	Unusable Reserves	Total Authority Reserves
	£000	£000	£000	£000	£000	£000	£000	£000	£000
Balance at 31 March 2013	(2,036)	(955)	(5,313)	(7,538)	(3,699)	(3,975)	(23,516)	(108,043)	(131,559)
Movement in reserves during 2013/14									
(Surplus) or deficit on the provision of services	(1,182)	0	(17,748)	0	0	0	(18,930)	0	(18,930)
Other comprehensive income and expenditure	0	0	0	0	0	0	0	(23,080)	(23,080)
Total Comprehensive Income and Expenditure	(1,182)	0	(17,748)	0	0	0	(18,930)	(23,080)	(42,010)
Adjustments between accounting basis and funding basis under regulations (note 7)	(1,037)	0	12,406	0	(1,380)	1,189	11,178	(11,178)	0
Net (Increase)/Decrease Before Transfers to Earmarked Reserves	(2,219)	0	(5,342)	0	(1,380)	1,189	(7,752)	(34,258)	(42,010)
Transfers to/(from) earmarked reserves (note 8/9)	2,219	(10,398)	9,436	(1,257)	0	0	0	0	0
(Increase) / Decrease in Year	0	(10,398)	4,094	(1,257)	(1,380)	1,189	(7,752)	(34,258)	(42,010)
Balance at 31 March 2014	(2,036)	(11,353)	(1,219)	(8,795)	(5,079)	(2,786)	(31,268)	(142,301)	(173,569)
Movement in reserves during 2014/15									
(Surplus) or deficit on the provision of services	1,981	0	(38,091)	0	0	0	(36,110)	0	(36,110)
Other comprehensive income and expenditure	0	0	0	0	0	0	0	7,811	7,811
Total Comprehensive Income and Expenditure	1,981	0	(38,091)	0	0	0	(36,110)	7,811	(28,299)
Adjustments between accounting basis and funding basis under regulations (note 7)	(3,437)	0	35,097	0	(953)	(59)	30,648	(30,648)	0
Net (Increase)/Decrease Before Transfers to Earmarked Reserves	(1,456)	0	(2,994)	0	(953)	(59)	(5,462)	(22,837)	(28,299)
Transfers to/(from) earmarked reserves (note 8/9)	1,456	(3,583)	3,199	(1,072)	0	0	0	0	0
(Increase) / Decrease in Year	0	(3,583)	205	(1,072)	(953)	(59)	(5,462)	(22,837)	(28,299)
Balance at 31 March 2015	(2,036)	(14,936)	(1,014)	(9,867)	(6,032)	(2,845)	(36,730)	(165,138)	(201,868)

COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

2013/14				2014/15			
Gross Expend £000	Gross Income £000	Net Expend £000		Note	Gross Expend £000	Gross Income £000	Net Expend £000
2,910	(1,041)	1,869	Central Services to the Public		2,345	(1,249)	1,096
6,823	(7,397)	(574)	Cultural and Related Services		11,239	(7,044)	4,195
13,294	(3,089)	10,205	Environmental and Regulatory Services		12,870	(3,049)	9,821
4,175	(1,472)	2,703	Planning Services		3,901	(1,759)	2,142
2,698	(3,391)	(693)	Highways and Transport Services		3,060	(3,502)	(442)
5,582	(26,681)	(21,099)	Local Authority Housing (HRA) Services		(13,600)	(27,682)	(41,282)
48,494	(46,984)	1,510	Other Housing Services		48,719	(46,803)	1,916
20	(7)	13	Adult Social Care		7	(2)	5
2,516	(113)	2,403	Corporate and Democratic Core		2,536	(99)	2,437
40	(25)	15	Non Distributed Costs		24	(25)	(1)
86,552	(90,200)	(3,648)	Cost of Services	10	71,101	(91,214)	(20,113)
			Other Operating Expenditure				
4,433			Town and Parish Council Precepts		4,698		
533			Payments to the Government Housing Capital Receipts Pool		561		
	(1,224)		(Gains)/Losses on the disposal of Non-Current Assets			(1,759)	
	0		VAT Refund			(53)	
		3,742	Total Other Operating Expenditure				3,447
			Financing and Investment Income and Expenditure				
			Interest Payable and Similar Charges:				
2			- General Fund		51		
4,467			- HRA		4,466		
	(316)		Other Investment Income			(507)	
3,760			Net interest on the net defined benefit liability/(asset)	42	2,900		
	(226)		Income, expenditure and changes in the fair value of Investment Properties	12	7		
		7,687	Total Financing and Investment Income and Expenditure				6,917
			Taxation and Non-Specific Grant Income				
	(15,215)		Council Tax Income (incl. Parish precepts)			(15,576)	
	(3,230)		Non-Domestic Rates Income and Expenditure	44		(3,883)	
	(6,472)		Unringfenced Government Grants	44		(5,837)	
	(1,794)		Capital Grants and Contributions	44		(1,065)	
		(26,711)	Total Taxation and Non-Specific Grant Income				(26,361)
		(18,930)	(Surplus)/Deficit on the Provision of Services				(36,110)
	(560)		(Surplus)/Deficit arising from the revaluation of Property, Plant and Equipment Assets			(609)	
	0		(Surplus)/Deficit on Revaluation of Available for Sale Financial Assets			(40)	
	(22,520)		Re-measurement of the defined benefit liability (asset)	42	8,460		
		(23,080)	Other Comprehensive Income and Expenditure				7,811
		(42,010)	Total Comprehensive Income and Expenditure	5			(28,299)

Total Comprehensive Income and Expenditure has decreased by £13.711 million between 2013/14 and 2014/15. The reasons for this increase are detailed in Note 5.

Mr R Jackson (CPFA) – Responsible Financial (s151) Officer

25 September 2015

BALANCE SHEET AS AT 31 MARCH

2013/14		Notes	2014/15	
£000	£000		£000	£000
		Long-Term Assets		
		Property, Plant and Equipment:		
282,952		Council Dwellings	317,871	
63,355		Other Land and Buildings	63,169	
3,797		Vehicles, Plant and Equipment	4,614	
6,358	356,462	Infrastructure	5,662	391,316
	2,476	Investment Property		2,325
	0	Long-Term Investments		6,040
	2,356	Long-Term Debtors		2,157
	361,294	Total Long-Term Assets		401,838
		Current Assets		
25,105		Short-Term Investments	25,207	
343		Inventories	339	
7,137		Short-Term Debtors	7,222	
(2,219)		Bad Debt Provision	(2,128)	
16,614		Cash and Cash Equivalents	19,476	
	46,980	Total Current Assets		50,116
	408,274	Total Assets		451,954
		Current Liabilities		
(252)		Short-Term Borrowing	(251)	
(14,910)		Short-Term Creditors	(17,929)	
(13)		Developers' Contributions - Receipts in Advance	(8)	
	(15,175)	Total Current Liabilities		(18,188)
		Long-Term Liabilities		
(144,510)		Long-Term Borrowing	(144,310)	
(3,329)		Provisions	(4,640)	
(335)		Capital Grants - Receipts in Advance	(241)	
(1,883)		Developers' Contributions - Receipts in Advance	(1,944)	
(69,473)		Net Pensions Liability	(80,763)	
	(219,530)	Total Long-Term Liabilities		(231,898)
	173,569	Net Assets		201,868
		Usable Reserves		
2,036		General Fund Balance	2,036	
11,353		Earmarked Reserves	14,936	
1,219		Housing Revenue Account Balance	1,014	
8,795		Capital Programme Reserve	9,867	
5,079		Capital Receipts Reserve	6,032	
2,786	31,268	Developers' Contributions Unapplied	2,845	36,730
		Unusable Reserves		
21,069		Revaluation Reserve	21,098	
190,208		Capital Adjustment Account	224,256	
0		Available For Sale Financial Instruments Reserve	40	
493		Deferred Capital Receipts Reserve	499	
(69,473)		Pensions Reserve	(80,763)	
276		Collection Fund Adjustment Account	294	
(272)	142,301	Accumulating Absences Adjustment Account	(286)	165,138
	173,569	Total Reserves		201,868

Mr R Jackson (CPFA) – Responsible Financial (s151) Officer

25 September 2015

CASH FLOW STATEMENT

2013/14		Notes	2014/15
£000			£000
(18,930)	Net (surplus) or deficit on the provision of services		(36,110)
(4,347)	Adjustments to net surplus or deficit on the provision of services for non-cash movements	35	13,561
4,150	Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities	35	4,191
(19,127)	Net cash flows from Operating Activities		(18,358)
12,381	Investing Activities	36	16,799
(5,737)	Financing Activities	37	(1,303)
(12,483)	Net (increase) or decrease in cash and cash equivalents		(2,862)
(4,131)	Cash and cash equivalents at the beginning of the reporting period		(16,614)
(16,614)	Cash and cash equivalents at the end of the reporting period	18	(19,476)

NOTES TO THE ACCOUNTS

1. ACCOUNTING POLICIES

i) General Principles

The Statement of Accounts summarises the Council's transactions for the 2014/15 financial year and its position at the year end of 31 March 2015. The Council is required to prepare an annual Statement of Accounts by the Accounts and Audit Regulations (England) 2011. These Regulations require the accounts to be prepared in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2014/15 and the Service Reporting Code of Practice 2014/15 supported by International Financial Reporting Standards (IFRS).

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.

ii) Accruals of Income and Expenditure (Debtors and Creditors)

The accounts of the Council are prepared on an accruals basis. This means that the sums due to or from the Council during the year are included in the accounts, whether or not the cash has actually been received or paid in the year in question. In particular:

- Income from fees, charges and rents is recognised when the Council provides the relevant goods or services.
- Supplies and services expenditure is recorded as expenditure when the supplies or services 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.
- Interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure 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 or 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 debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.

Accruals have been made for all known material revenue and capital debtors and creditors for goods and services supplied by and to the Council during the year.

Exceptions to this policy are housing benefit payments, housing rents, utility costs and similar quarterly payments that are not apportioned when the period of charge does not coincide exactly with the end of the financial year. This policy is consistently applied each year and therefore does not have a material effect on the year's accounts.

NOTES TO THE ACCOUNTS

iii) Cash and Cash Equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are investments that mature or can be called within 24 hours and that are readily convertible to known amounts of cash with insignificant risk of change in value.

The Council will treat the following as cash and cash equivalents:

- Instant Access Call Accounts
- Instant Access Money Market Funds
- Deposits with one day to maturity

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

iv) Changes in Accounting Policies, Material Errors and Changes in Accounting Estimates

Prior period adjustments may arise as a result of a change in accounting policies or to correct a material error.

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

Material errors discovered in prior period figures are also corrected retrospectively by amending opening balances and comparative amounts for the prior period.

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.

v) Charges to Revenue for Non-Current Assets

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

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

The Council is not required to raise council tax to fund depreciation, revaluation and impairment losses or amortisations. Charges are therefore mitigated by way of an adjusting transaction with the Capital Adjustment Account via the Movement in Reserves Statement. The Council is however required to make an annual contribution from revenue towards the reduction in its overall borrowing requirement. This is calculated on a prudent basis determined by the Council in accordance with statutory guidance.

NOTES TO THE ACCOUNTS

vi) 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.

vii) 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 in circumstances where a provision would otherwise be made but either it is not probable that an outflow of resources will be required or the amount of the obligation cannot be measured reliably.

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

viii) Employee Benefits

Benefits Payable During Employment

Short-term employee benefits are those due to be settled within 12 months of the year-end. They include such benefits as wages and salaries, paid annual leave and paid sick leave, bonuses and non-monetary benefits for current employees and are recognised as an expense for services in the year in which employees render service to the Council. An accrual is made for the cost of holiday entitlements (or any form of leave e.g. flexi time) earned by employees but not taken before the year-end which employees can carry forward into the next financial year. The accrual is made at the wage and salary rates applicable in the following accounting year, being the period in which the employee takes the benefit. The accrual is charged to Surplus or Deficit on the Provision of Services, but then reversed out through the Movement in Reserves Statement so that benefits are charged to revenue in the financial year in which the absence occurs.

NOTES TO THE ACCOUNTS

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. They are charged to services on an accruals basis in the Comprehensive Income and Expenditure Statement when the Council is demonstrably committed to the termination of the employment of an officer or group of officers or making an offer to encourage voluntary redundancy.

Where termination benefits involve the enhancement of pensions, statutory provisions require the General Fund balance to be charged with the amount payable by the Council to the pension fund or pensioner in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, appropriations are required to and from the Pensions Reserve to remove the notional debits and credits for pension enhancement termination benefits and replace them with debits for the cash paid or payable to the pension fund and pensioners.

Post Employment Benefits

Most employees of the Council are members of the Local Government Pensions Scheme, administered by Hampshire County Council.

Detailed regulations govern rates of contribution and scales of benefits, the latter normally being in the form of a lump sum and annual pension.

The Local Government Scheme is accounted for as a defined benefits scheme:

- * The liabilities of the Hampshire pension fund attributable to the Council are included in the Balance Sheet on an actuarial basis using the projected unit method – i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc, and projections of projected earnings for current employees.
- * Liabilities are discounted to their value at current prices, using a calculated discount rate based on a series of calculations for high quality corporate bonds over a range of periods.

NOTES TO THE ACCOUNTS

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

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

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

* **Service cost comprising**

- **Current service cost** – the increase in liabilities as a result of years of service earned this year – allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked.
- **Past service cost** – the increase in liabilities as a result of a scheme amendment or curtailment whose effect relates to years of service earned in earlier years – debited to the Cost of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs.
- **Net interest on the net defined benefit liability (asset)** – the change during the period in the net defined benefit liability (asset) that arises from the passage of time charged to the Financing and Investment Income and Expenditure line of the Comprehensive Income and Expenditure Statement. It is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the net defined benefit liability (asset) at the beginning of the period, taking into account any changes in the net defined benefit liability (asset) during the period as a result of contribution and benefit payments.

Re-measurements comprising

- **Return on plan assets** – excluding amounts included in net interest on the net defined benefit liability (asset), charged to the Pensions Reserve as Other Comprehensive Income and Expenditure.
- **Actuarial Gains and Losses** – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure.
- **Contributions paid to the Hampshire pension fund** – cash paid as employer's contributions to the pension fund in settlement of liabilities - not accounted for as an expense.

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

NOTES TO THE ACCOUNTS

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

ix) Events after the Balance Sheet Date

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

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

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

x) Exceptional Items

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

xi) Financial Instruments

A financial instrument is a contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. Non-exchange transactions, such as those relating to taxes and government grants, do not give rise to financial instruments.

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 fair value and are carried at their amortised cost. Annual charges to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement, for interest payable, are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument.

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

NOTES TO THE ACCOUNTS

Gains and losses on the repurchase or early settlement of borrowing are credited and debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement in the year of repurchase/settlement.

Financial Assets are divided into two categories: Loans and Receivables and Available for Sale assets.

Loans and Receivables

Loans and receivables (e.g. cash investments) are financial assets that have fixed or determinable payments and are not quoted in an active market. They are initially measured at their fair value and carried at their amortised cost. Annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the carrying amount of the asset multiplied by the effective interest rate for the instrument. For most of the loans that the Council has made, this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest credit to the Comprehensive Income and Expenditure Statement is the amount receivable for the year in the loan agreement.

Available-for-sale assets

Available for sale assets are financial assets that are held for an indefinite period of time, are quoted in an active market and are tradable, so ensuring liquidity.

xii) Foreign Currency Translation

Where the Council has entered into a transaction denominated in a foreign currency, the transaction is converted into sterling at the exchange rate applicable on the date the transaction was effective. Where amounts in foreign currency are outstanding at the year-end they are reconverted at the exchange rate at 31 March. Resulting gains or losses are recognised in the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

NOTES TO THE ACCOUNTS

xiii) 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 or contributions will be received.

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

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

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

xiv) Heritage Assets

The Council has concluded that obtaining valuations for currently held Heritage Assets would involve a disproportionate cost in comparison to the benefits to the users of Council's financial statements and therefore has not recognised the assets on the Balance Sheet. Should the Council obtain any additional Heritage Assets in the future each asset would be considered for inclusion at the time.

xv) Intangible Assets

The Council accounts for expenditure on Intangible Assets, such as software licences and website development, as revenue expenditure and therefore there is no asset recognition on the Balance Sheet.

NOTES TO THE ACCOUNTS

xvi) Inventories

Stocks are recorded in the Balance Sheet and charged to services at actual cost and stores items at average cost. This is not materially different from the recommended practice of carrying them at the lower of cost or net realisable value. Care is taken to write out any obsolescent stocks.

xvii) Investment Property

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

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

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

xviii) Leases

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

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

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

NOTES TO THE ACCOUNTS

The Council as Lessee

Finance Leases

Where the Council leases a material asset under a finance lease it would be recognised in the accounts as if it were the Council's asset and then treated in the same way as any other Property, Plant and Equipment asset, other than 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 currently has no such Finance Leases.

Operating Leases

Rentals paid under operating leases are charged to the Comprehensive Income and Expenditure Statement as an expense of the services benefitting from use of the leased property, plant or equipment.

The Council as Lessor

Finance Leases

Where the Council grants a finance lease over a property or an item of plant or equipment, the relevant asset is written out of the Balance Sheet as a disposal. The rentals receivable are treated partly as capital receipts (for the principal element) and partly as revenue interest income. If not paid in full the balance due is held as a Long-Term Debtor in the Balance Sheet and is written down when payments are received.

Operating Leases

Where the Council grants an operating lease over a property or an item of plant or equipment, the asset is retained in the Balance Sheet. Rental income is credited to the relevant service area in the Comprehensive Income and Expenditure Statement.

NOTES TO THE ACCOUNTS

xix) Overheads and Support Services

The costs of overheads and support services are charged to those that benefit from the supply or service in accordance with the costing principles of the CIPFA Service Reporting Code of Practice 2014/15 (SeRCOP). The total absorption costing principle is used – the full cost of overheads and support services are shared between users in proportion to the benefits received, with the exception of:

- Corporate and Democratic Core – costs relating to the Council’s status as a multi-functional, democratic organisation.
- Non Distributed Costs – the cost of discretionary benefits awarded to employees retiring early and impairment losses chargeable on Assets Held for Sale.

These two cost categories are defined in SeRCOP and accounted for as separate headings in the Comprehensive Income and Expenditure Statement, as part of Net Expenditure on Continuing Services.

xx) Property, Plant and Equipment

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

Recognition

Expenditure on the acquisition, creation or enhancement of Property, Plant and Equipment is capitalised on an accruals basis, provided that it is probable that the future economic benefits or service potential associated with the item will flow to the Council over a number of years and the cost of the item can be measured reliably. This determination will be made by the Responsible Financial Officer based upon a reasonable and prudent judgement. Leisure and ICT equipment will generally not be capitalised. Expenditure that maintains but does not add to an asset’s potential to deliver future economic benefits or service potential (i.e. repairs and maintenance) is charged as an expense when it is incurred.

A de minimis level is set for operational assets below which expenditure is not capitalised.

<u>Category of Property, Plant and Equipment Assets</u>	<u>De minimis level</u>
Council dwellings	£25,000
Other land and buildings	£10,000
Vehicles, plant and equipment	£10,000
Infrastructure assets	£10,000

NOTES TO THE ACCOUNTS

Measurement

Assets are initially measured at cost, comprising:

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

The Council does not capitalise borrowing costs incurred whilst assets are under construction.

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

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

- Infrastructure, Vehicles, Plant and Equipment, Community Assets and Assets Under Construction – depreciated historical cost.
- Dwellings – fair value, determined using the basis of existing use value for social housing (EUV-SH).
- All other assets – fair value, determined as the amount that would be paid for the asset in its existing use (existing use value – EUV).

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

Where non-property assets 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 re-valued 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 or exceptionally to the Comprehensive Income and Expenditure Statement where they arise from the reversal of a loss previously charged to a service.

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

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

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

NOTES TO THE ACCOUNTS

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:

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

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

Depreciation

Depreciation is provided for on all Property, Plant and Equipment assets by the systematic allocation of their depreciable amounts over their useful lives. An exception is made for assets where the useful life is in excess of 50 years or where assets are without a determinable finite useful life (i.e. freehold land and certain Community Assets) and assets that are not yet available for use (i.e. assets under construction).

Depreciation is calculated on the following bases:

- * dwellings and other buildings – straight-line allocation over the useful life of the property as estimated by the valuer.
- * vehicles, plant and equipment – a percentage of the value of each class of assets in the Balance Sheet, as advised by a suitably qualified officer.
- * infrastructure – coast protection - straight-line allocation over 20 years.
land drainage and public lighting - straight-line allocation over 40 years.

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

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

Depreciation is applied in the year in which the asset is acquired and is charged using the straight-line method.

NOTES TO THE ACCOUNTS

In respect of housing stock, the depreciation charge that has been made is equal to the Major Repairs Allowance. The Major Repairs Allowance represents a sum that is allowed annually to maintain the Council's housing stock. In 2014/15 the depreciation charge for the Council's housing stock was £5.127 million (£5.114 million in 2013/14). Had a depreciation charge been made based on 2.5% of the valuation of the stock at 1 April 2014, less the value of land which is not depreciated, it would have been approximately £5.482 million (£5.240 million at 1 April 2013).

The Remaining Useful Life of the Council's Non-Current Assets

The Council's Property, Plant and Equipment are depreciated over the remaining useful life of the asset as determined by the Council's valuers. Any land owned by the Council is not deemed to have a finite life and is not depreciated.

Investment assets are not depreciated and have a remaining life of 50 years or more.

The following table indicates the estimated remaining useful life of each type of non-current asset owned by the Council. Each category of asset consists of different assets with varying remaining lives. Therefore the table shows the range.

Type of Asset	Remaining Useful Asset Life at 31.3.2015
Council Dwellings	Up to 99 years
Council Garages	60 years
Depots	50 years
Public Conveniences	Between 2 and 50+ years
Offices	Between 41 and 60 years
Cemeteries	An average of 44 years
Health and Leisure Centres	60 years
Equipment	Between 0 and 30 years
Coastal Protection Works	Up to 17 years
Land Drainage Works	Up to 30 years
Public Lighting Works	Up to 28 years
Residential Dwellings	An average of 46 years
Investment Properties	Between 51 and 60 years

xxi) Disposals and Non-Current Assets Held for Sale

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

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

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

NOTES TO THE ACCOUNTS

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

Amounts received for a disposal are categorised as capital receipts. For Council Dwellings sold under the Right to Buy Scheme a proportion of the receipts, net of statutory deductions and allowances) are payable to the Government. The balance of receipts is required to be credited to the Capital Receipts Reserve, and can then only be used for new capital investment or set aside to reduce the Council's underlying need to borrow (the capital financing requirement). 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.

xxii) Private Finance Initiative (PFI) and Similar Contracts

The Council has not entered into any PFI schemes or similar contracts.

xxiii) 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 or service potential, and a reliable estimate can be made of the amount of the obligation. For instance, the Council may be involved in a court case that could eventually result in the making of a settlement or the payment of compensation.

Provisions are charged as an expense to the appropriate service line in the Comprehensive Income and Expenditure Statement in the year that the Council becomes aware of the obligation, and are measured at the best estimate at the Balance Sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

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

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

NOTES TO THE ACCOUNTS

xxiv) Reserves

The Council sets aside specific amounts as reserves for future policy purposes or to cover contingencies. Reserves are created by appropriating amounts out of the General Fund Balance in the Movement in Reserves Statement. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service in that year to score against the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement. The reserve is then appropriated back into the General Fund Balance in the Movement in Reserves Statement so that there is no net charge against council tax for the expenditure.

Certain reserves are kept to manage the accounting processes for non-current assets, financial instruments, retirement and employee benefits and do not represent usable resources for the Authority – these reserves are explained in the relevant notes.

xxv) Revenue Expenditure Funded From Capital Under Statute

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

xxvi) Value Added Tax (VAT)

All VAT collected is payable to HM Revenue and Customs and most VAT paid is recoverable. Income and expenditure in the Statement of Accounts excludes any amounts related to VAT other than any irrecoverable VAT which is charged to the service to which the supply related.

NOTES TO THE ACCOUNTS

2. NEW ACCOUNTING STANDARDS YET TO BE ADOPTED

The Code requires the Council to identify any accounting standards that have been issued but have yet to be adopted which could have a material impact on the Accounts. The following standards are affected:

IFRS 13	Fair Value Measurement
IFRIC 21	Levies

Annual Improvements to IFRS (2011 – 2013 Cycle):

IFRS 1	Meaning of Effective IFRSs
IFRS 3	Scope Exceptions for Joint Ventures
IFRS 13	Scope of paragraph 52 (Portfolio Exception)
IAS 40	Clarifying the interrelationship of IFRS 3 Business Combinations
IAS 40	Investment Property when classifying a property as investment property or owner-occupied property

It is considered that any required changes will not be applicable or will not have a material impact on the financial statements of this Authority.

3. JUDGEMENTS MADE IN APPLYING ACCOUNTING POLICIES

In applying the accounting policies set out in this document 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 reclassifications – the Council has made judgements on whether assets are classified as Investment Property or Property, Plant and Equipment. If the asset is used in the delivery of services or is occupied by third parties who are subsidised by the Council they are deemed to be Property, Plant and Equipment assets. If the asset is being held solely for capital appreciation or rental income, there is no subsidy and/or full market rent is being charged this would indicate that the asset is an Investment Property. The classification determines the valuation method to be used.

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

NOTES TO THE ACCOUNTS

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

Future funding for local government – there is a high degree of uncertainty about future levels of funding for local government. However, the Council has determined that this uncertainty is not yet sufficient to provide an indication that the assets of the Council 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 around the results of pending legal actions.

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

4. UNCERTAINTIES RELATING TO ASSUMPTIONS AND ESTIMATES USED

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities as at the balance sheet date and the amounts reported for revenues and expenses during the year. However, the nature of estimation means that actual outcomes could differ from those estimates.

The key judgements and estimation uncertainty that have a significant risk of causing material adjustment to the carrying amounts of assets and liabilities within the next financial year are as follows:

Item	Uncertainties	Effect if Actual Results Differ from Assumptions/Estimates
Doubtful Debt Allowances	The Council has made allowances for doubtful debts of £2.128 million in 2014/15 (£2.219 million in 2013/14) based on what it believes to be a prudent but realistic level. The allowances are based on: Council Tax and Non-domestic ratepayers – ranges from 5% of debts at bill stage to 50% of debts at Liability Order stage. Sundry Debtors including Overpaid Housing Benefits -100% of debts over 1 year. Housing Rents - Former tenants 95%, current tenants various percentages ranging from 0% on debts up to £100 and 95% on debts over £1,000.	If debt collection rates were to deteriorate or improve, a 5% change in the allowances would require an adjustment of £106,000 (£111,000 in 2013/14).

NOTES TO THE ACCOUNTS

Item	Uncertainties	Effect if Actual Results Differ from Assumptions/Estimates
Pensions Liability	<p>Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the Council with expert advice about the assumptions to be applied.</p>	<p>The effects on the net pensions' liability of changes in individual assumptions are detailed in Note 42e. During 2014/15, the Council's actuaries advised that the net pension liability for funded benefits had decreased by £1.15 million as a result of estimates being corrected as a result of experience and increased by £21.44 million due to updating of the assumptions used in the calculations.</p>
Accumulating Absences	<p>The calculated figure is comprised of annual leave entitlement and accrued flexi/lieu time. 65% of staff record annual leave and flexi/lieu days on the HR system. The carried forward leave on the system has been used to calculate the accrual for annual leave. The average number of days taken in flexi leave per month has been used as the base for calculating accrued flexi at the end of each relevant year. This average may not exactly match the accrued flexi days at 31 March each year but would not be materially different. The balance of staff do not have leave recorded on the system and do not accrue flexi leave. Discussions between Heads of Service and HR have determined that any leave accrued for these staff would not be material.</p>	<p>The accumulated absences amount recorded for 2014/15 is £286,000. A 5% increase in the accrual would amount to £14,000. This would not impact on the usable reserves of the Council.</p>
Business Rates Appeals Provision	<p>The provision of £4.120 million made by the Council is its 40% share of an overall provision of £10.300 million provision made in the Collection Fund. The overall figure is based on a national estimate of 3.6% successful appeals on the gross rateable value, less appeals already settled and adjusted for major appeals that have been notified by the Valuation Office as being in hand and likely to be successful, but not yet settled.</p>	<p>The Council would be impacted by circa 20% of any under or over provision, but any loss would be restricted to a reduction in resources of £488,000 before Safety Net Grant arrangements apply.</p>

NOTES TO THE ACCOUNTS

5. MATERIAL ITEMS OF INCOME AND EXPENDITURE

The Total Comprehensive Income and Expenditure Statement reports a net income position of £28.299 million in 2014/15, a decrease of £13.711 million from the £42.010 million net income position in 2013/14. The main reasons for the variation, most of which do not impact on usable resources, are as follows:

	2013/14	2014/15	Variation
	£000	£000	£000
Depreciation and Revaluation/Impairment of Non Current Assets	(9,874)	(25,894)	(16,020)
Capital Grants and Contributions	(3,448)	(2,524)	924
Revenue Expenditure Funded from Capital	2,055	1,928	(127)
Payments to the Housing Pooled Capital Receipts	533	561	28
(Gains)/Losses on Non Current Asset Disposals	(1,224)	(1,759)	(535)
Pension Fund Actuarial (Gains)/Losses	(22,520)	8,460	30,980
Other IAS19 Pension Adjustments	4,173	2,830	(1,343)
(Surplus)/deficit arising from the revaluation of Property, Plant and Equipment (Revaluation Reserve)	(560)	(609)	(49)
Other Items	(71)	124	195
Items Not Affecting Council Tax / Housing Rents	(30,936)	(16,883)	14,053
Equipment Purchases	1,027	806	(221)
Dwellings Depreciation	5,248	5,261	13
Non-Ringfenced Government Grants	(9,702)	(9,720)	(18)
Interest Payable and Similar Charges	4,469	4,517	48
VAT Refund	0	(53)	(53)
Other Items	(12,116)	(12,227)	(111)
Items Affecting Council Tax / Housing Rents	(11,074)	(11,416)	(342)
Total Comprehensive Income and Expenditure	(42,010)	(28,299)	13,711

6. EVENTS AFTER THE REPORTING PERIOD

There have been no events after the Balance Sheet date that would affect the reported figures.

NOTES TO THE ACCOUNTS

7. ADJUSTMENTS BETWEEN ACCOUNTING BASIS AND FUNDING BASIS UNDER REGULATIONS

This note details the adjustments that are made to the total comprehensive income and expenditure recognised by the 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.

2014/15	Usable Reserves					Movement in Unusable Reserves
	General Fund Balance	Housing Revenue Account	Capital Receipts Reserve	Major Repairs Reserve	Developers' Contributions Unapplied	
	£000	£000	£000	£000	£000	£000
Adjustments primarily involving the Capital Adjustment Account:						
Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement:						
Charges for depreciation and impairment of non-current assets	(2,063)	(3)	0	(5,262)	0	7,328
Revaluation Gains / (Losses) on Property, Plant and Equipment	62	39,302	0	0	0	(39,364)
Capital Expenditure not enhancing value	(274)	(11,209)	0	0	0	11,483
Movements in the market value of Investment Properties	(150)	0	0	0	0	150
Capital grants and contributions applied	1,097	316	0	0	0	(1,413)
Revenue expenditure funded from capital under statute	(1,928)	0	0	0	0	1,928
Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	(589)	(1,843)	0	0	0	2,432
Movement to/from Revaluation Reserve	79	0	0	0	0	(79)
Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:						
Statutory provision for the financing of capital investment	1,078	0	0	0	0	(1,078)
Capital expenditure charged against the General Fund and HRA balances	0	5,871	0	0	0	(5,871)
Adjustments primarily involving the Capital Grants / Developers' Contributions Unapplied Account:						
Capital grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement	984	0	0	0	(984)	0
Application of grants to capital financing transferred to the Capital Adjustment Account	0	0	0	0	925	(925)

NOTES TO THE ACCOUNTS

2014/15	Usable Reserves					Movement in Unusable Reserves
	General Fund Balance	Housing Revenue Account	Capital Receipts Reserve	Major Repairs Reserve	Developers' Contributions Unapplied	
	£000	£000	£000	£000	£000	£000
Adjustments primarily involving the Capital Receipts Reserve:						
Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement (net of administration costs of disposal)	1,041	3,150	(4,191)	0	0	0
Transfer of cash proceeds from non PPE assets	53	66	(119)	0	0	0
Use of the Capital Receipts Reserve to finance new capital expenditure	0	0	2,797	0	0	(2,797)
Contribution from the Capital Receipts Reserve to finance the payments to the Government capital receipts pool	(561)	0	561	0	0	0
Adjustments primarily involving the Deferred Capital Receipts Reserve:						
Transfer of deferred sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	0	7	(1)	0	0	(6)
Adjustments primarily involving the Major Repairs Reserve:						
Use of the Major Repairs Reserve to finance new capital expenditure	0	0	0	5,262	0	(5,262)
Adjustments primarily involving the Pension Reserve:						
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement	(5,768)	(1,182)	0	0	0	6,950
Employer's pensions contributions and direct payments to pensioners payable in the year	3,497	623	0	0	0	(4,120)

NOTES TO THE ACCOUNTS

2014/15	Usable Reserves					Movement in Unusable Reserves
	General Fund Balance	Housing Revenue Account	Capital Receipts Reserve	Major Repairs Reserve	Developers' Contributions Unapplied	
	£000	£000	£000	£000	£000	£000
Adjustments primarily involving the Collection Fund Adjustment Account:						
Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements	17	0	0	0	0	(17)
Adjustments primarily involving the Accumulating Absences Adjustment Account:						
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	(12)	(1)	0	0	0	13
Total Adjustments	(3,437)	35,097	(953)	0	(59)	(30,648)

NOTES TO THE ACCOUNTS

2013/14 Comparative Figures	Usable Reserves					Movement in Unusable Reserves
	General Fund Balance	Housing Revenue Account	Capital Receipts Reserve	Major Repairs Reserve	Developers' Contributions Unapplied	
	£000	£000	£000	£000	£000	£000
Adjustments primarily involving the Capital Adjustment Account:						
Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement:						
Charges for depreciation and impairment of non-current assets	(2,699)	(1)	0	(5,248)	0	7,948
Revaluation Gains / (Losses) on Property, Plant and Equipment	4,683	17,647	0	0	0	(22,330)
Capital Expenditure not enhancing value	(1,121)	(8,635)	0	0	0	9,756
Movements in the market value of Investment Properties	91	0	0	0	0	(91)
Capital grants and contributions applied	2,249	0	0	0	0	(2,249)
Revenue expenditure funded from capital under statute	(2,055)	0	0	0	0	2,055
Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	(753)	(2,172)	0	0	0	2,925
Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:						
Statutory provision for the financing of capital investment	944	0	0	0	0	(944)
Capital expenditure charged against the General Fund and HRA balances	0	2,415	0	0	0	(2,415)
Adjustments primarily involving the Capital Grants / Developers' Contributions Unapplied Account:						
Capital grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement	579	0	0	0	(579)	0
Application of grants to capital financing transferred to the Capital Adjustment Account	0	0	0	0	1,768	(1,768)

NOTES TO THE ACCOUNTS

2013/14 Comparative Figures	Usable Reserves					Movement in Unusable Reserves
	General Fund Balance	Housing Revenue Account	Capital Receipts Reserve	Major Repairs Reserve	Developers' Contributions Unapplied	
	£000	£000	£000	£000	£000	£000
Adjustments primarily involving the Capital Receipts Reserve:						
Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement (net of administration costs of disposal)	861	3,289	(4,150)	0	0	0
Transfer of cash proceeds from non PPE assets	43	89	(132)	0	0	0
Use of the Capital Receipts Reserve to finance new capital expenditure	0	0	2,371	0	0	(2,371)
Contribution from the Capital Receipts Reserve to finance the payments to the Government capital receipts pool	(533)	0	533	0	0	0
Adjustments primarily involving the Deferred Capital Receipts Reserve:						
Transfer of deferred sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	0	486	(2)	0	0	(484)
Adjustments primarily involving the Major Repairs Reserve:						
Use of the Major Repairs Reserve to finance new capital expenditure	0	0	0	5,248	0	(5,248)
Adjustments primarily involving the Financial Instruments Adjustment Account:						
Proportion of premiums incurred in previous financial years to be charged against the HRA in accordance with statutory requirements	0	52	0	0	0	(52)
Adjustments primarily involving the Pension Reserve:						
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement	(6,728)	(1,320)	0	0	0	8,048
Employer's pensions contributions and direct payments to pensioners payable in the year	3,311	564	0	0	0	(3,875)

NOTES TO THE ACCOUNTS

2013/14 Comparative Figures	Usable Reserves					Movement in Unusable Reserves
	General Fund Balance	Housing Revenue Account	Capital Receipts Reserve	Major Repairs Reserve	Developers' Contributions Unapplied	
	£000	£000	£000	£000	£000	£000
Adjustments primarily involving the Collection Fund Adjustment Account:						
Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements	104	0	0	0	0	(104)
Adjustments primarily involving the Accumulating Absences Adjustment Account:						
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	(13)	(8)	0	0	0	21
Total Adjustments	(1,037)	12,406	(1,380)	0	1,189	(11,178)

NOTES TO THE ACCOUNTS

8. EARMARKED RESERVES

This note sets out the amounts set aside from the General Fund and HRA balances to provide financing for future expenditure plans and the amounts posted back from earmarked reserves to meet General Fund and HRA expenditure in 2013/14 and 2014/15.

	Balance 1 April 2013 £000	Transfers Out 2013/14 £000	Transfers In 2013/14 £000	Balance 31 March 2014 £000	Transfers Out 2014/15 £000	Transfers In 2014/15 £000	Balance 31 March 2015 £000
Quadrennial Election	(44)	0	(44)	(88)	0	(44)	(132)
Local Development Framework	(234)	113	0	(121)	25	0	(96)
Building Control Surplus	(4)	0	(34)	(38)	0	(74)	(112)
Historic Buildings	(14)	4	0	(10)	3	0	(7)
Lymington Synthetic Turf Pitch	(74)	0	(17)	(91)	0	(13)	(104)
Committed Schemes	(171)	171	(1,126)	(1,126)	1,126	(1,384)	(1,384)
Private Housing Stock Condition Survey	(39)	0	(13)	(52)	0	(13)	(65)
Housing Needs Survey	(36)	0	(12)	(48)	0	(12)	(60)
Open Space Maintenance	(59)	5	(9)	(63)	3	0	(60)
General Fund	(675)	293	(1,255)	(1,637)	1,157	(1,540)	(2,020)
HRA ICT	(280)	64	0	(216)	0	0	(216)
Housing Acquisitions and Development	0	0	(9,500)	(9,500)	0	(3,200)	(12,700)
Total Reserves	(955)	357	(10,755)	(11,353)	1,157	(4,740)	(14,936)

NOTES TO THE ACCOUNTS

9. CAPITAL PROGRAMME RESERVE

This note sets out the amounts set aside from the General Fund to provide for financing of future years' capital expenditure projects.

	Balance 1 April 2013	Transfers Out 2013/14	Transfers In 2013/14	Balance 31 March 2014	Transfers Out 2014/15	Transfers In 2014/15	Balance 31 March 2015
	£000	£000	£000	£000	£000	£000	£000
Capital Programme	(7,538)	0	(1,257)	(8,795)	0	(1,072)	(9,867)
	(7,538)	0	(1,257)	(8,795)	0	(1,072)	(9,867)

10. AMOUNTS REPORTED FOR RESOURCE ALLOCATION DECISIONS

The analysis of income and expenditure by service on the face of the Comprehensive Income and Expenditure Statement is that specified by the Service Reporting Code of Practice. However, decisions about resource allocation are taken by the Council's Cabinet on the basis of budget reports analysed across Portfolios. These reports are prepared on a different basis from the accounting policies used in the financial statements. In particular:

- no charges are made in relation to capital expenditure (whereas depreciation, revaluation and impairment losses in excess of the balance on the Revaluation Reserve and amortisations are charged to services in the Comprehensive Income and Expenditure Statement)
- the cost of retirement benefits is based on cash flows (payment of employer's pensions contributions) rather than current service cost of benefits accrued in the year
- no charges are made for the cost of Revenue Expenditure Funded from Capital Under Statute or the associated grant funding

NOTES TO THE ACCOUNTS

Portfolio Income and Expenditure	Finance and Efficiency	Leader's	Planning and Transportation	Environment	Housing and Communities	Health and Leisure	General Purposes and Licensing	Planning Development Control	Housing Revenue Account	Total
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
2014/15:										
Fees, charges and other service income	(1,106)	(313)	(4,041)	(2,077)	(2,019)	(5,689)	(380)	(647)	(27,682)	(43,954)
Government grants	(44,435)	(220)	(10)	(682)	0	0	(101)	(4)	0	(45,452)
Other grants and contribs.	0	0	0	(335)	0	(14)	0	0	0	(349)
Total Income	(45,541)	(533)	(4,051)	(3,094)	(2,019)	(5,703)	(481)	(651)	(27,682)	(89,755)
Employee expenses	5,570	446	2,036	5,833	1,530	5,209	694	1,385	3,335	26,038
Other service expenses	45,005	554	1,631	3,263	2,009	3,985	184	32	5,462	62,125
Support service recharges	252	52	243	248	172	302	80	164	356	1,869
Total Expenditure	50,827	1,052	3,910	9,344	3,711	9,496	958	1,581	9,153	90,032
Net Expenditure	5,286	519	(141)	6,250	1,692	3,793	477	930	(18,529)	277
Original Budget	5,135	523	472	6,369	1,796	3,519	506	1,165	(17,971)	1,514
(Saving)/Overspend	151	(4)	(613)	(119)	(104)	274	(29)	(235)	(558)	(1,237)
2013/14:										
Fees, charges and other service income	(1,462)	(246)	(3,918)	(2,061)	(1,696)	(5,770)	(382)	(647)	(26,681)	(42,863)
Government grants	(44,499)	0	0	(697)	0	0	(20)	0	0	(45,216)
Other grants and contribs.	0	0	0	(416)	0	(51)	0	0	0	(467)
Total Income	(45,961)	(246)	(3,918)	(3,174)	(1,696)	(5,821)	(402)	(647)	(26,681)	(88,546)
Employee expenses	5,521	446	2,104	5,743	1,546	4,973	691	1,396	3,207	25,627
Other service expenses	44,854	301	1,538	3,367	1,621	3,721	119	53	5,643	61,217
Support service recharges	288	56	265	271	188	326	88	177	341	2,000
Total Expenditure	50,663	803	3,907	9,381	3,355	9,020	898	1,626	9,191	88,844
Net Expenditure	4,702	557	(11)	6,207	1,659	3,199	496	979	(17,490)	298
Original Budget	5,479	552	246	6,453	1,984	3,484	518	1,197	(17,459)	2,454
(Saving)/Overspend	(777)	5	(257)	(246)	(325)	(285)	(22)	(218)	(31)	(2,156)

NOTES TO THE ACCOUNTS

	2013/14	2014/15
	£000	£000
Net expenditure in the Portfolio Analysis	298	277
Amounts in the Comprehensive Income and Expenditure Statement not reported to management for decision making	(3,946)	(20,390)
Cost of Services in Comprehensive Income and Expenditure Statement	(3,648)	(20,113)

2014/15	Portfolio Analysis	Amounts not reported to management for decision making	Cost of Services	Corporate Amounts	Total
	£000	£000	£000	£000	£000
Fees, charges and other service income	(43,954)	0	(43,954)	0	(43,954)
Interest and investment income	0	0	0	(507)	(507)
Income from council tax	0	0	0	(15,576)	(15,576)
Government grants and contributions	(45,452)	(413)	(45,865)	(9,720)	(55,585)
Other grants and contributions	(349)	(1,046)	(1,395)	(1,065)	(2,460)
Total Income	(89,755)	(1,459)	(91,214)	(26,868)	(118,082)
Employee expenses	26,038	(227)	25,811	0	25,811
Other service expenses	62,125	1,928	64,053	0	64,053
Support Service recharges	1,869	0	1,869	0	1,869
Depreciation, amortisation and impairment	0	(20,632)	(20,632)	0	(20,632)
Interest Payments	0	0	0	7,424	7,424
Precepts and Levies	0	0	0	4,698	4,698
Payments to Housing Capital Receipts Pool	0	0	0	561	561
Gain or Loss on Disposal of Non-Current Assets	0	0	0	(1,759)	(1,759)
VAT Refund	0	0	0	(53)	(53)
Total Expenditure	90,032	(18,931)	71,101	10,871	81,972
Surplus or deficit on the provision of services	277	(20,390)	(20,113)	(15,997)	(36,110)

NOTES TO THE ACCOUNTS

2013/14 Comparative Figures	Portfolio Analysis	Amounts not reported to management for decision making	Cost of Services	Corporate Amounts	Total
	£000	£000	£000	£000	£000
Fees, charges and other service income	(42,863)	0	(42,863)	0	(42,863)
Interest and investment income	0	0	0	(542)	(542)
Income from council tax	0	0	0	(15,215)	(15,215)
Government grants and contributions	(45,216)	(392)	(45,608)	(9,702)	(55,310)
Other grants and contributions	(467)	(1,262)	(1,729)	(1,794)	(3,523)
Total Income	(88,546)	(1,654)	(90,200)	(27,253)	(117,453)
Employee expenses	25,627	277	25,904	0	25,904
Other service expenses	61,217	2,056	63,273	0	63,273
Support Service recharges	2,000	0	2,000	0	2,000
Depreciation, amortisation and impairment	0	(4,625)	(4,625)	0	(4,625)
Interest Payments	0	0	0	8,229	8,229
Precepts and Levies	0	0	0	4,433	4,433
Payments to Housing Capital Receipts Pool	0	0	0	533	533
Gain or Loss on Disposal of Non-Current Assets	0	0	0	(1,224)	(1,224)
Total Expenditure	88,844	(2,292)	86,552	11,971	98,523
Surplus or deficit on the provision of services	298	(3,946)	(3,648)	(15,282)	(18,930)

NOTES TO THE ACCOUNTS

11. PROPERTY, PLANT AND EQUIPMENT ASSETS AND IMPAIRMENTS

Valuation of Property, Plant and Equipment

The Council operates a rolling programme of property revaluations, which are carried out over a 5 year period. In 2014/15 this work was carried out by the Council's valuer, S. Yeo, MRICS. The revaluation programme for 2014/15 principally comprised the Council's cemeteries, various land sites and 20% of dwellings. The remainder of dwellings' values were uplifted in line with current indices.

a) Analysis of Assets

The following list gives an indication of the range and number of assets owned/leased by the Council.

2013/14		2014/15
5,025	Council Dwellings	5,038
2	Main Office Blocks	2
2	Other Offices	2
5	Depots and Administrative Buildings	5
5	Health and Leisure Centres	5
51	Car Parks	51
8	Cemeteries	8
27	Public Conveniences	26
193	Vehicles	198
1,853	Garages	1,844

b) Valuation of Property, Plant and Equipment Assets carried at current value

The following statement shows the progress of the Council's rolling programme for the revaluation of non-current assets. The basis for valuation is set out in the Statement of Accounting Policies.

	Council Dwellings	Other Land and Buildings	Vehicles, Plant and Equipment	Infra- structure	Total
	£000	£000	£000	£000	£000
Carried at Historic Cost (Net of Depreciation)			4,614	5,662	10,276
Valued at Fair Value as at:					
2014/15	34,919	(186)			34,733
2013/14	12,217	4,438			16,655
2012/13	7,987	617			8,604
2011/12	8,323	3,901			12,224
Prior to 2011/12	254,425	54,399			308,824
Total Cost or Valuation	317,871	63,169	4,614	5,662	391,316

These valuations show the net current value after depreciation is applied.

NOTES TO THE ACCOUNTS

c) Movement on Property, Plant and Equipment Assets

Purchases and disposals during the year were as follows:

Movements in 2014/15:	Council Dwellings	Other Land and Buildings	Vehicles, Plant and Equipment	Infrastructure Assets	Total Property, Plant and Equipment
	£000	£000	£000	£000	£000
Cost or Valuation					
At 1 April 2014	283,082	63,567	8,634	19,839	375,122
Additions	13,669	58	1,763	554	16,044
Revaluation increases / (decreases) recognised in the Revaluation Reserve	0	419	0	0	419
Revaluation increases / (decreases) recognised in the Surplus / Deficit on the Provision of Services	34,175	(1)	0	0	34,174
Capital Expenditure not enhancing value recognised in the Surplus / Deficit on the Provision of Services	(11,209)	(49)	329	(554)	(11,483)
Derecognition - disposals	(1,843)	(590)	(1,502)	0	(3,935)
At 31 March 2015	317,874	63,404	9,224	19,839	410,341
Accumulated Depreciation and Impairment					
At 1 April 2014	(129)	(212)	(4,837)	(13,481)	(18,659)
Depreciation charge	(5,256)	(115)	(1,260)	(696)	(7,327)
Depreciation written out to the Revaluation Reserve	256	12	0	0	268
Depreciation written out to the Surplus / Deficit on the Provision of Services	5,126	63	0	0	5,189
Derecognition - disposals	0	17	1,487	0	1,504
At 31 March 2015	(3)	(235)	(4,610)	(14,177)	(19,025)
Net Book Value					
at 31 March 2015	317,871	63,169	4,614	5,662	391,316
at 31 March 2014	282,952	63,355	3,797	6,358	356,462

NOTES TO THE ACCOUNTS

Comparative Movements in 2013/14:	Council Dwellings	Other Land and Buildings	Vehicles, Plant and Equipment	Infrastructure Assets	Total Property, Plant and Equipment
	£000	£000	£000	£000	£000
Cost or Valuation					
At 1 April 2013	270,735	59,897	8,626	19,839	359,097
Additions	10,618	170	1,207	622	12,617
Revaluation increases / (decreases) recognised in the Revaluation Reserve	1	559	0	0	560
Revaluation increases / (decreases) recognised in the Surplus / Deficit on the Provision of Services	12,534	3,111	0	0	15,645
Capital Expenditure not enhancing value recognised in the Surplus / Deficit on the Provision of Services	(8,635)	(170)	(329)	(622)	(9,756)
Derecognition - disposals	(2,172)	0	(870)	0	(3,042)
At 31 March 2014	283,081	63,567	8,634	19,839	375,121
Accumulated Depreciation and Impairment					
At 1 April 2013	0	(980)	(4,684)	(12,598)	(18,262)
Depreciation charge	(5,242)	(703)	(1,120)	(883)	(7,948)
Depreciation written out to the Surplus / Deficit on the Provision of Services	5,113	1,471	100	0	6,684
Derecognition - disposals	0	0	867	0	867
At 31 March 2014	(129)	(212)	(4,837)	(13,481)	(18,659)
Net Book Value					
at 31 March 2014	282,952	63,355	3,797	6,358	356,462
at 31 March 2013	270,735	58,917	3,942	7,241	340,835

NOTES TO THE ACCOUNTS

d) Impairments

Valuation reductions Property, Plant and Equipment Assets were £5,000 in 2014/15 but valuation increases were £40.055 million (Council Dwellings £39.302 million, Garages £256,000, Other HRA Properties £165,000, Public Conveniences £249,000 and other assets £83,000).

Offsetting the net valuation increases was non-enhancing capital expenditure of £11.209 million on Council Dwellings and £274,000 on General Fund Assets, which was impaired via the Comprehensive Income and Expenditure Account in the year.

e) Capital Expenditure Contract Commitments

As at 31 March 2015, the Council was committed through contracts to future capital expenditure in respect of the following major schemes:

	Period of investment	£000
Environment		
National Coastal Monitoring Programme Wavebuoy contract	2015/16	20
National Coastal Monitoring Programme Wavebuoy contract	2016/17	20
Vehicles	2015/16	291
Housing		
Bathrooms	2015/16	520
Doors	2015/16	49
Kitchen Floors	2015/16	85
Kitchens	2015/16	526
Roofs	2015/16	584
Totton Flats	2015/16	28
Health and Leisure		
Eling Tide Mill	2015/16	60
Total		2,183

NOTES TO THE ACCOUNTS

12. INVESTMENT PROPERTIES

The following items of income and expense have been accounted for in the Financing and Investment Income and Expenditure section of the Comprehensive Income and Expenditure Statement:

2013/14		2014/15
£000		£000
(138)	Rental income from investment property	(147)
4	Direct operating expenses arising from investment property	3
(92)	Net (gains)/losses from fair value adjustments	151
(226)	Net (gain)/loss	7

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

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

2013/14		2014/15
£000		£000
2,384	Balance at start of the year	2,476
92	Net gains/(losses) from fair value adjustments	(151)
2,476	Balance at end of the year	2,325

13. LONG-TERM INVESTMENTS

The Council is permitted to lend a proportion of its funds for more than 364 days. At 31 March 2015 the Council had 5 loans which had a remaining maturity term of more than one year.

2013/14				2014/15		
Loans and Receivables	Assets Held for Sale	Total		Loans and Receivables	Assets Held for Sale	Total
£000	£000	£000		£000	£000	£000
0	0	0	Opening Balance	0	0	0
0	0	0	Purchases	4,000	2,000	6,000
0	0	0	Revaluations Gains/(Losses)	0	40	40
0	0	0	Closing Balance	4,000	2,040	6,040

NOTES TO THE ACCOUNTS

14. LONG-TERM DEBTORS

Long-term debtors include mortgages and deferred capital receipts for house purchases, loans to local trusts and organisations, and staff car/cycle loans. During 2013/14 a long-term loan of £2.007 million was made to Lymington Harbour Commissioners. Of this £1.806 million was outstanding as at 31 March 2015, but £200,700 is due within 12 months and is therefore included within short-term debtors.

31 March 2014		31 March 2015
£000		£000
4	Council House Purchases	4
44	Car Loans	41
15	Trust Loans	12
1	Cycle Loans	1
1806	Lymington Harbour Commissioners - Principal	1,606
486	Rent to Mortgages House Purchases	493
2356	Total	2,157

15. SHORT-TERM INVESTMENTS

Short-term investments include all deposits with a term of less than one year other than Cash and Cash Equivalents.

2013/14				2014/15		
Loans and Receivables	Assets Held for Sale	Total		Loans and Receivables	Assets Held for Sale	Total
£000	£000	£000		£000	£000	£000
21,409	0	21,409	Opening Balance	25,105	0	25,105
47,200	0	47,200	Purchases	15,000	22,128	37,128
0	0	0	Revaluations Gains/(Losses)	0	(10)	(10)
(304)	0	(304)	Movement in Accrued Interest	(45)	29	(16)
(43,200)	0	(43,200)	Repayments	(30,000)	(7,000)	(37,000)
25,105	0	25,105	Closing Balance	10,060	15,147	25,207

NOTES TO THE ACCOUNTS

16. INVENTORIES

Inventories are goods that are acquired in advance of their use in the provision of services or their resale. They are charged to the Comprehensive Income and Expenditure Account in the year that they are consumed or sold.

2013/14		2014/15
£000		£000
327	Balance at 1 April	343
2,251	Purchases	2,221
(2,218)	Recognised as an expense in the year	(2,196)
(17)	Written off balances	(29)
343	Balance at 31 March	339

17. SHORT-TERM DEBTORS

An analysis of the Council's debtors and payments in advance as at 31 March is shown below:

31 March 2014		31 March 2015
£000		£000
1,186	Central Government Bodies *	855
	Other Local Authorities:	
640	Hampshire County Council	665
0	Hampshire Police Authority	1
86	New Forest National Park Authority	58
55	Other	94
1	NHS Bodies	2
20	Public Corporations and Trading Funds	39
	Other Entities and Individuals:	
433	Council Tax Payers	446
597	Business Rate Payers	488
606	Housing Tenants' Rents	668
3,513	Other Debtors and Payments in Advance **	3,906
7,137	Total	7,222

* The Central Government Bodies debtors reduced by £331,000 between 2013/14 and 2014/15. This was mainly due to reductions of £156,000 in VAT reimbursement due, Housing Benefit Subsidy moving from being a debtor of £149,000 at the end of 2013/14 to being a creditor at 31 March 2015 and a reduction of £81,000 in coast protection grant due, offset by an increase of £66,000 in the amount due re storm damage.

** Other Debtors and Payments in Advance have increased by £393,000 between 2013/14 and 2014/15. This is principally due to increases in amounts due of £121,000 in s106 Contributions, £25,000 in Bed and Breakfast recharges, £23,000 in Access to Private Sector Housing Loans, £24,000 in Sold Flats Service Charges and £31,000 in HRA Housing Maintenance recharges. Increases in Payments in Advance included £134,000 for leisure grants and £38,000 for ICT licences.

NOTES TO THE ACCOUNTS

The bad debts provision is shown below:

31 March 2014		31 March 2015
£000		£000
(175)	Council Tax Payers	(187)
(203)	Business Rate Payers	(146)
(408)	Housing Tenants' Rents	(458)
(1,433)	Other Debtors	(1,337)
(2,219)	Total	(2,128)

18. CASH AND CASH EQUIVALENTS

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

31 March 2014		31 March 2015
£000		£000
31	Cash held by the Council	27
626	Bank current accounts	452
15,957	Short-Term deposits with building societies/banks and other financial institutions	18,997
16,614	Total	19,476

19. SHORT-TERM BORROWING

Short-term borrowing refers to loans that are repayable over a period of less than 12 months.

The Council has no short-term loans but its long-term loans are repayable by equal instalments of principal and £200,700 is repayable within 12 months.

In addition, total accrued interest of £50,670 on short-term and long-term borrowing is also payable within 12 months and is included in this category.

2013/14		2014/15
£000		£000
0	Balance at 1 April	(252)
0	Loans Repaid	201
(201)	Transferred from Long-Term Borrowing	(200)
(51)	Movement in accrued interest on all Borrowing	0
(252)	Balance at 31 March	(251)

NOTES TO THE ACCOUNTS

20. SHORT-TERM CREDITORS

An analysis of the Council's creditors and receipts in advance as at 31 March is shown below:

31 March 2014 £000		31 March 2015 £000
(4,266)	Central Government Bodies *	(7,319)
	Other Local Authorities:	
(2,392)	Hampshire County Council	(2,600)
(205)	Hampshire Police Authority	(154)
(147)	Hampshire Fire and Rescue Authority	(156)
(10)	New Forest National Park Authority	(10)
(168)	Developers' Contributions Open Space Maintenance	(174)
(502)	Other	(632)
0	NHS Bodies	(3)
(139)	Public Corporations and Trading Funds	(12)
	Other Entities:	
(282)	Council Tax Payers	(292)
(417)	Business Rate Payers	(223)
(6,382)	Other Creditors and Receipts in Advance	(6,354)
(14,910)	Total	(17,929)

Short term creditors have increased by £3.019 million from 2013/14 to 2014/15.

- * Within Central Government Bodies the principal changes are the inclusion of Housing Benefit Subsidy of £1.429 million, which had a debtor balance at the end of 2013/14, and an increase in Business Rates due to the Government of £1.638 million, due principally to the increase in the Government's share of the Appeals provision.

NOTES TO THE ACCOUNTS

21. DEVELOPERS' CONTRIBUTIONS – SHORT-TERM RECEIPTS IN ADVANCE

The Council has received Developers' Contributions that have yet to be recognised as income as they have conditions attached to them that will, if not met, require the monies to be returned to the contributor. Some of these balances have less than 1 year until they must be returned to the contributor. The balances and movements on these short-term contributions were as follows.

2013/14		2014/15
£000		£000
(37)	Balance at 1 April	(13)
(5)	New Receipts	0
116	Financing of Capital Expenditure	0
(87)	Transfer to/(from) other Developers' Contribution Categories	5
(13)	Balance at 31 March	(8)

22. LONG-TERM BORROWING

Long-term borrowing refers to loans that are repayable over a period in excess of 12 months.

At 1 April 2014 the Council was holding long-term debt of £144.510 million. This included a sum of £1.806 million from a loan raised in March 2014 to finance an equivalent loan made in 2013/14 to the Lymington Harbour Commissioners. At 31 March 2015 £200,700 was repayable within 12 months leaving a balance of long-term debt of £144.310 million outstanding at the year end.

2013/14		2014/15
£000		£000
(142,704)	Balance at 1 April	(144,510)
(2,007)	Loans Raised	0
201	Transferred to Short-Term Borrowing	200
(144,510)	Balance at 31 March	(144,310)

NOTES TO THE ACCOUNTS

23. PROVISIONS

The Council maintains provisions to cover liabilities or losses that are anticipated to arise, but which cannot be quantified with certainty.

	Balance 1 April 2013	Additional Provisions Made 2013/14	Amounts Used 2013/14	Unused Amounts Reversed 2013/14	Balance 31 March 2014	Additional Provisions Made 2014/15	Amounts Used 2014/15	Unused Amounts Reversed 2014/15	Balance 31 March 2015
	£000	£000	£000	£000	£000	£000	£000	£000	£000
Redundancy	(280)	(20)	39	241	(20)	(74)	20	0	(74)
Private Sector Leasing Dilapidations	(102)	0	0	0	(102)	0	0	0	(102)
Legislation Changes	(350)	0	3	0	(347)	0	3	0	(344)
Insurance	(43)	0	42	1	0	0	0	0	0
Business Rates	0	(2,860)	0	0	(2,860)	(1,260)	0	0	(4,120)
Other	(40)	0	33	7	0	0	0	0	0
Total Provisions	(815)	(2,880)	117	249	(3,329)	(1,334)	23	0	(4,640)

Redundancy

The Redundancy provision is put in place once approval for the termination of employment has been agreed by the Council. As at 31 March 2015 provisions of £74,000 had been made for payments anticipated to be made in 2015/16.

Private Sector Leasing Dilapidations

The Council is responsible for ensuring the repair of private sector houses that are leased. The Council had possible obligations on 200 properties at 31 March 2015. A revenue budget of £96,000 exists in 2015/16 for repairs and dilapidation costs but a provision of £102,000 is also held to cover the potential for additional costs should a large number of dilapidations occur in any particular year.

Legislation Changes

The ability to fully recover the cost of providing property search information is currently subject to challenge nationally, as a consequence of conflicting legislation. It is possible that a future revenue loss may occur. The extent of any liability is not yet certain but a provision of £344,000 is held on the basis of latest estimates received.

Business Rates

On 1 April 2013 the Government introduced the Business Rates Retention Scheme. This required the Council, for the first time to make a provision in the Collection Fund for successful appeals against rating valuations. The total provision made at 31 March 2015 was £10.300 million, of which £4.120 million relates to this Council's share of anticipated refunds.

NOTES TO THE ACCOUNTS

24. CAPITAL GRANTS – RECEIPTS IN ADVANCE

The Council has received capital grants and contributions that have yet to be recognised as income as they have conditions attached to them that will, if not met, require the monies to be returned to the contributor. The balances and movements on contributions were as follows:

2013/14				2014/15		
Government Grants	Other Grants/Contributions	Total		Government Grants	Other Grants/Contributions	Total
£000	£000	£000		£000	£000	£000
(675)	(17)	(692)	Balance at 1 April	(333)	(2)	(335)
(1,203)	(144)	(1,347)	New Receipts	(883)	(92)	(975)
1,545	159	1,704	Financing of Capital Expenditure	977	92	1,069
(333)	(2)	(335)	Balance at 31 March	(239)	(2)	(241)

25. DEVELOPERS' CONTRIBUTIONS – LONG -TERM RECEIPTS IN ADVANCE

The Council has received Developers' Contributions that have yet to be recognised as income, as they have conditions attached to them that will, if not met, require the monies to be returned to the contributor.

2013/14		2014/15
£000		£000
(2,176)	Balance at 1 April	(1,883)
(67)	New Receipts	(350)
429	Financing of Capital Expenditure	344
(69)	Transfer to/(from) other Developers' Contribution Categories	(55)
(1,883)	Balance at 31 March	(1,944)

26. CAPITAL RECEIPTS RESERVE

The Capital Receipts Reserve principally reflects the proceeds from the disposal of Property, Plant and Equipment assets that have yet to be utilised on new capital expenditure.

2013/14		2014/15
£000		£000
(3,699)	Balance at 1 April	(5,079)
(4,284)	New Receipts (including interest)	(4,311)
533	Transfers to Government	561
2,371	Financing of capital expenditure	2,797
(5,079)	Balance at 31 March	(6,032)

NOTES TO THE ACCOUNTS

27. DEVELOPERS' CONTRIBUTIONS UNAPPLIED

The Developers' Contributions Unapplied account reflects contributions which have no conditions attached to them and have therefore been credited to the Reserve via the Comprehensive Income and Expenditure Account.

2013/14		2014/15
£000		£000
(3,975)	Balance at 1 April	(2,786)
(809)	New Receipts	(1,035)
190	Transfers to/(from) other Developers' Contribution Categories	51
1,768	Financing of Capital Expenditure	925
40	Repayments	0
(2,786)	Balance at 31 March	(2,845)

28. REVALUATION RESERVE

The Revaluation Reserve contains the gains made by the Council arising from increases in the value of its Property, Plant and Equipment, since 1 April 2007, the date the Reserve was created. Gains that arose before that date are included in the balance on the Capital Adjustment Account.

The balance on the Reserve is reduced when assets with accumulated gains are revalued downwards, impaired, or disposed of.

2013/14				2014/15		
General Fund	Housing Revenue Account	Total		General Fund	Housing Revenue Account	Total
£000	£000	£000		£000	£000	£000
(15,309)	(5,489)	(20,798)	Balance at 1 April	(15,579)	(5,490)	(21,069)
(902)	(1)	(903)	Upward revaluation of assets	(266)	(422)	(688)
343	0	343	Downward revaluation of assets and impairment losses not charged to Surplus/Deficit on the Provision of Services	0	0	0
(559)	(1)	(560)	Surplus or deficit on revaluation of non-current assets not posted to the Surplus or Deficit on the Provision of Services	(266)	(422)	(688)
0	0	0	Adjusting Amounts written out to the Capital Adjustment Account	79	0	79
289	0	289	Accumulated gains on assets sold or scrapped	573	7	580
(15,579)	(5,490)	(21,069)	Balance at 31 March	(15,193)	(5,905)	(21,098)

NOTES TO THE ACCOUNTS

29. CAPITAL ADJUSTMENT ACCOUNT

The Capital Adjustment Account absorbs the timing differences arising from the different arrangements for the consumption of non-current assets and for financing their acquisition or enhancement under statutory provisions. The account is debited with the costs of depreciation, impairment and amortisations as assets are consumed and credited with the amounts set aside by the Council for the financing of capital expenditure.

The account contains accumulated gains and losses on Investment Properties and gains on Property, Plant and Equipment assets arising before 1 April 2007.

The balance on the Capital Adjustment Account is matched by fixed assets within the Balance Sheet and does not represent actual funds available to the Council.

2013/14			2014/15	
£000	£000		£000	£000
	(175,187)	Balance 1 April		(190,208)
		Reversal of items relating to capital expenditure or credited to the Comprehensive Income and Expenditure Statement:		
7,948		Charges for depreciation and impairment of non-current assets	7,328	
(22,330)		Revaluation (Gains) / Losses on Property, Plant and Equipment	(39,364)	
9,756		Capital Expenditure not enhancing value	11,483	
2,055		Revenue expenditure funded from capital under statute	1,928	
2,636		Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	1,852	
	65	Net written out amount of the cost on non-current assets consumed in the year		(16,773)
	0	Adjusting Amounts written out of the Revaluation Reserve		(79)
	65			(16,852)
		Capital financing applied in the year:		
(2,371)		Use of the Capital Receipts Reserve to finance new capital expenditure	(2,797)	
(5,248)		Use of the Major Repairs Reserve to finance new capital expenditure	(5,262)	
(2,249)		Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	(1,413)	
(1,768)		Application of grants / contributions to capital financing from the Capital Grant / Developers' Contributions Unapplied Accounts	(925)	
(944)		Provision for the financing of capital investment charged against the General Fund and HRA balances	(1,078)	
(2,415)		Capital expenditure charged against the General Fund and HRA balances	(5,871)	
	(14,995)	Movements in the market value of Investment Properties debited or credited to the Comprehensive Income and Expenditure Statement		(17,346)
	(91)			150
	(190,208)	Balance at 31 March		(224,256)

NOTES TO THE ACCOUNTS

30. AVAILABLE FOR SALE FINANCIAL INSTRUMENTS RESERVE

The Available for Sale Financial Instruments Reserve contains the gains made by the Council arising from increases in the value of its investments that have quoted market prices or otherwise do not have fixed or determinable payments. The balance is reduced when investments with accumulated gains are revalued downwards or impaired and the gains are lost, or disposed of and the gains are realised.

2013/14		2014/15
£000		£000
0	Balance at 1 April	0
0	Upward revaluation of investments	(40)
0	Surplus or deficit on revaluation of investments not posted to the Surplus or Deficit on the Provision of Services	(40)
0	Balance at 31 March	(40)

NOTES TO THE ACCOUNTS

31. DEFERRED CAPITAL RECEIPTS RESERVE

The Deferred Capital Receipts Reserve represents the amount of capital receipts owed to the Council that have not yet been received. Under statutory arrangements, the Council does not treat these gains as usable for financing new capital expenditure until they are backed by cash receipts. When the deferred cash settlement takes place, amounts are transferred to the Capital Receipts Reserve.

2013/14		2014/15
£000		£000
(9)	Balance at 1 April	(493)
(486)	New Receipts/Revaluations	(53)
2	Transfer to the Capital Receipts Reserve upon receipt of cash	47
(493)	Balance at 31 March	(499)

32. PENSIONS RESERVE

The Pensions Reserve absorbs the timing differences arising from the different arrangements for accounting for post-employment benefits and for funding benefits in accordance with statutory provisions. The debit balance on the Pensions Reserve therefore shows a shortfall in the benefits earned by past and current employees and the resources the Council has set aside to meet them. The statutory arrangements will ensure that funding will have been set aside by the time the benefits come to be paid. Full details of the Pension Scheme are set out in Note 42.

2013/14		2014/15
£000		£000
87,820	Balance at 1 April	69,473
(22,520)	Remeasurement of the net defined liability / (asset)	8,460
8,048	Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement	6,950
(3,875)	Employer's pensions contributions and direct payments to pensioners payable in the year	(4,120)
69,473	Balance at 31 March	80,763

NOTES TO THE ACCOUNTS

33. COLLECTION FUND ADJUSTMENT ACCOUNT

The Collection Fund is a statutory fund in which the Council records transactions for council tax and business rates. The fund balance is allocated as follows:

31 March 2014				31 March 2015		
Business Rates	Council Tax	Total		Business Rates	Council Tax	Total
£000	£000	£000		£000	£000	£000
419	0	419	Central Government	292	0	292
76	(1,297)	(1,221)	Hampshire County Council	52	(888)	(836)
0	(189)	(189)	Police and Crime Commissioner for Hampshire	0	(131)	(131)
8	(77)	(69)	Hampshire Fire and Rescue Authority	6	(53)	(47)
503	(1,563)	(1,060)	New Forest District Council	350	(1,072)	(722)
0	(276)	(276)		(102)	(192)	(294)
503	(1,839)	(1,336)		248	(1,264)	(1,016)

The balances on the fund will be taken into account in calculating the council tax in future years. £1.546 million was taken into account in setting the 2015/16 Council Tax Levels (£1.866 million for 2014/15).

34. ACCUMULATING ABSENCES ADJUSTMENT ACCOUNT

This account represents the reversal of the accrual for compensated absences. The accrual is required under the Code but under regulations is not allowed to count as expenditure against the General Fund or Housing Revenue Account.

2013/14			2014/15	
£000	£000		£000	£000
	251	Balance at 1 April		272
(251)		Settlement or cancellation of accrual made at the end of the preceding year	(272)	
272		Amounts accrued at the end of the current year	286	
	21	Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements		14
	272	Balance at 31 March		286

NOTES TO THE ACCOUNTS

35. CASH FLOW STATEMENT – OPERATING ACTIVITIES

The surplus or deficit on the provision of services has been adjusted for the following non-cash movements:

2013/14		2014/15
£000		£000
(7,948)	Charges for depreciation and impairment	(7,328)
22,330	Revaluation Gains/(Losses) on Property, Plant and Equipment	39,364
0	Transfer between Capital Adjustment Account and Revaluation Reserve	79
0	Revaluation/Movement in Deferred Debtors	53
0	Revaluation Gains/(Losses) on Investments	(10)
(9,756)	Capital Expenditure not enhancing value	(11,483)
92	Movements in the value of Investment Properties	(150)
1,794	Capital grants applied to the financing of Capital Expenditure	1,066
(2,925)	Carrying amount of Non-Current Assets sold	(2,432)
16	Increase/(Decrease) in Inventories	(4)
804	Increase/(Decrease) in Debtors	85
(304)	Increase/(Decrease) in Investments Accrued Interest	(15)
(505)	(Increase)/Decrease in impairment for Provision for Bad Debts	91
(1,797)	(Increase)/Decrease in Creditors	(1,477)
539	Adjustment to Creditors re Capital Expenditure	(137)
(4,173)	Movement in Pension Liability	(2,830)
(2,514)	Other non-cash items charged to the net surplus or deficit on the provision of services	(1,311)
(4,347)	Adjustment to Net Surplus or Deficit on the Provision of Services for Non-Cash Movements	13,561

The surplus or deficit on the provision of services has been adjusted for the following items that are investing and financing activities:

2013/14		2014/15
£000		£000
(4,150)	Proceeds from the sale of property, plant and equipment and investment property	(4,191)
(4,150)	Net cash flows from operating activities	(4,191)

NOTES TO THE ACCOUNTS

The cash flows for operating activities include the following items:

2013/14		2014/15
£000		£000
(556)	Investment interest received	(501)
4,461	Loan interest paid	4,512
3,905	Net cash flows from operating activities	4,011

36. CASH FLOW STATEMENT - INVESTING ACTIVITIES

2013/14		2014/15
£000		£000
12,077	Purchase of property, plant and equipment, investment property and intangible assets	16,182
47,200	Purchase of short-term and long-term investments	43,128
2,298	Other payments for investing activities	41
(4,150)	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	(4,191)
(43,200)	Proceeds from short-term and long-term investments	(37,000)
(1,844)	Other receipts from investing activities	(1,361)
12,381	Net cash flows from investing activities	16,799

37. CASH FLOW STATEMENT - FINANCING ACTIVITIES

2013/14		2014/15
£000		£000
(2,007)	Cash receipts of short- and long-term borrowing	0
(3,730)	Other receipts from financing activities	(1,943)
0	Repayments of short- and long-term borrowing	201
0	Other payments for financing activities	439
(5,737)	Net cash flows from financing activities	(1,303)

NOTES TO THE ACCOUNTS

38. AGENCY SERVICES

These figures include net expenditure on services that the Council provides on an agency basis for highways, disposal of waste and on-street parking enforcement.

2013/14		2014/15		
Net Expenditure £000		Gross Expenditure £000	Income £000	Net Expenditure £000
	Hampshire County Council			
30	- Highways	560	(507)	53
0	- Waste	78	(78)	0
148	- On-Street Parking	211	(65)	146
178	Agency Expenditure	849	(650)	199

39. CAPITAL EXPENDITURE AND CAPITAL FINANCING

Capital expenditure is paid for (financed) in various ways including borrowing, the use of internal resources, the receipt of grant and directly from revenue income. Capital expenditure on behalf of other authorities is recharged directly to them.

The Capital Financing Requirement shows the overall indebtedness of the Council. This debt need not be external loans that have been raised but can be internal funds that the Council has used temporarily instead of raising debt. The expectation is that borrowing may be required in the future.

NOTES TO THE ACCOUNTS

This table sets out the transactions required for the financing of capital expenditure and permitted adjustments for each year.

	2013/14		2014/15	
	£000	£000	£000	£000
Opening Capital Financing Requirement		147,985		147,662
Capital Investment				
Property, Plant and Equipment Assets	12,617		16,045	
REFCUS	2,055	14,672	1,928	17,973
Sources of Finance				
Capital Receipts	(2,371)		(2,798)	
Government Grants	(1,704)		(1,070)	
Revenue Contributions	(2,415)		(5,871)	
Major Repairs Reserve	(5,248)		(5,262)	
Developers' Contributions	(2,313)	(14,051)	(1,269)	(16,270)
Other Adjustments for the Repayment of Debt				
Voluntary Revenue Provision		(944)		(1,078)
Closing Capital Financing Requirement		147,662		148,287

Explanation of movements in Year	2013/14	2014/15
	£000	£000
Increase in underlying need to borrow (supported by Government financial assistance)	0	0
Increase in underlying need to borrow (unsupported by Government financial assistance)	621	1,703
Reduction (-)/increase in need to borrow because of Voluntary Revenue Provision and adjustments	(944)	(1,078)
	(323)	625

Where applicable the Council is required to set aside a revenue provision for the redemption of debt and for a future borrowing requirement if external debt has not actually been raised.

The Council has a choice in the method of calculating the provision and has chosen the one that represents the depreciation calculation of those assets financed by the debt. Therefore, when the value of the asset financed by debt has been fully depreciated the amount of the revenue provision that has been set aside will be sufficient to repay the loan for that asset.

New vehicles, plant and equipment, above a de minimis level of £10,000, are funded by a future borrowing requirement. In order to make a provision to repay this future requirement a voluntary revenue provision is made. This sum was £1.078 million in 2014/15 and was charged to the General Fund.

There is no requirement for a revenue provision to be charged on outstanding debt for the Housing Revenue Account (HRA).

NOTES TO THE ACCOUNTS

40. CONTINGENT ASSETS

The Council is unaware of any Contingent Assets as at the Balance Sheet date.

41. CONTINGENT LIABILITIES

In April 2012 the Dibden Golf Course staff transferred to Mytime Active, who gained admitted body status to the Hampshire County Council Government Pension Scheme. New Forest District Council has become the sponsoring body, acting as guarantor for any contributions to the Pension Fund should they not be paid by Mytime Active. As at the end of March 2015 no such guarantee has been exercised.

In November 2014 the Employment Appeal Tribunal ruled that holiday pay should include non-guaranteed overtime (i.e. overtime, which is not guaranteed by the employer, but the worker is obliged to work, if offered). This may have implications when employees are required to work overtime as a regular part of their job. The Council is awaiting case law regarding this which should give further details on the impact this may have. No provision has been made for this contingency.

42. DEFINED BENEFIT PENSION SCHEME

a) Participation in Pension Scheme

As part of the terms and conditions of employment of its officers, the Council makes contributions 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 for those benefits and to disclose them at the time that employees earn their future entitlement.

The Council participates in the Hampshire County Council Pension Scheme. This is a funded scheme, meaning that the Council and employees pay contributions into a fund, calculated at a level intended to balance the pension liabilities with the investment assets.

NOTES TO THE ACCOUNTS

b) Transactions Relating to Post-employment (Retirement) Benefits

The Council recognises the cost of retirement benefits in the Net Cost of Services when employees earn them, rather than when the benefits are eventually paid out as pensions. However, the charge required to be made against the General Fund is based on the cash payable in the year, so the real cost of retirement benefits is reversed out of the Comprehensive Income and Expenditure Account via the Movement in Reserves Statement. The following transactions have been made during the year:

	2013/14	2014/15
	£ million	£ million
Comprehensive Income and Expenditure Statement		
Cost of Services		
Service cost comprising:		
Current service cost	4.230	4.030
Past service cost	0.058	0.020
Financing and Investment Income and Expenditure		
Net Interest expense	3.760	2.900
Total Post Employment Benefits Charged to the Surplus or Deficit on the Provision of Services	8.048	6.950
Other Post Employment Benefits Charged to the Comprehensive Income and Expenditure Statement		
Remeasurement of the net defined benefit liability comprising:		
Return on plan assets (excluding the amount included in the net interest expense)	(1.730)	(11.830)
Actuarial (gains) / losses arising on changes in demographic assumptions	(2.420)	0.000
Actuarial (gains) / losses arising on changes in financial assumptions	(13.140)	21.440
Actuarial (gains) / losses due to liability experience	(5.230)	(1.150)
Total Net Defined Benefit Liability Re-measured	(22.520)	8.460
Total Post Employment Benefits Charged to the Comprehensive Income and Expenditure Statement	(14.472)	15.410
Movement in Reserves Statement		
Reversal of net charges made to the Surplus or Deficit on the Provision of Services for post employment benefits in accordance with the Code	18.347	(11.290)
Actual amount charged against the General Fund		
Balance for pensions in the year		
Employer's contributions payable to scheme	3.875	4.120

NOTES TO THE ACCOUNTS

c) Pensions Assets and Liabilities Recognised in the Balance Sheet

The amount included in the Balance Sheet arising from the Council's obligation in respect of its defined benefit plans is as follows:

Assets and Liabilities	31 March 2014	31 March 2015
	£ million	£ million
Present value of the defined benefit obligation	(187.468)	(214.678)
Fair value of plan assets	117.995	133.915
Net liability arising from defined benefit obligation	(69.473)	(80.763)

The liabilities show the underlying commitments that the Council has in the long-run to pay post employment retirement benefits. The total net liability of £80.763 million has a substantial impact on the net worth of the Council as recorded in the Balance Sheet. However, statutory arrangements for funding the deficit mean that the financial position of the Council remains healthy, as the deficit on the scheme will be made good by increased contributions over the remaining working life of employees, as assessed by the scheme actuary.

Reconciliation of Present Value of the Scheme Liabilities (Defined Benefit Obligation)

	2013/14	2014/15
	£ million	£ million
Opening balance at 1 April	(200.494)	(187.468)
Current Service Cost	(4.230)	(4.030)
Past Service Cost	(0.058)	(0.020)
Interest Cost	(8.690)	(7.950)
Contributions from scheme Participants	(1.160)	(1.260)
Remeasurement (gains) and losses:		
Actuarial Gains/(Losses) arising from changes in demographic assumptions	2.420	0.000
Actuarial Gains/(Losses) arising from changes in financial assumptions	13.144	(21.440)
Actuarial Gains/(Losses) due to liabilities experience	5.230	1.150
Benefits Paid	6.370	6.340
Closing balance at 31 March	(187.468)	(214.678)

NOTES TO THE ACCOUNTS

Reconciliation of the Movements in the Fair Value of Scheme (Plan) Assets

	2013/14	2014/15
	£ million	£ million
Opening fair value of scheme assets at 1 April	112.670	117.995
Interest Income	4.930	5.050
Remeasurement gain/(loss):		
The return on plan assets, excluding the amount included in the net interest expense	1.730	11.830
Contributions from employer	3.875	4.120
Contributions from employees into the scheme	1.160	1.260
Benefits paid	(6.370)	(6.340)
Closing fair value of scheme assets at 31 March	117.995	133.915

d) Local Government Pension Scheme assets (fair value) comprised

31 March 2014		Assets	31 March 2015	
£ million	%		£ million	%
4.48	3.8	Cash and Cash Equivalents	4.95	3.7
71.74	60.8	Equity Investments	77.41	57.8
27.85	23.6	Government Bonds	34.02	25.4
1.89	1.6	Corporate Bonds	2.14	1.6
8.85	7.5	Property	10.71	8.0
3.18	2.7	Other Assets	4.69	3.5
		Average		
117.99	100.0	Total Assets	133.92	100.0

NOTES TO THE ACCOUNTS

e) 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 liabilities have been assessed by AON Hewitt Limited, an independent firm of actuaries, estimates for the Fund being based on the latest full valuation of the scheme as at 31 March 2013.

The main assumptions used in their calculations have been:

Financial Assumptions	31 March 2014	31 March 2015
	%	%
Rate of inflation - RPI	3.3	2.9
- CPI	2.3	1.8
Rate of increase in salaries	3.8	3.3
Rate of increase in pensions	2.3	1.8
Rate of increase in deferred pensions	2.3	1.8
Rate of discounting scheme liabilities	4.3	3.2

Mortality Assumptions	31 March 2014	31 March 2015
	Years	Years
Longevity at 65 for current pensioners		
Males	24.4	24.5
Females	26.2	26.3
Longevity at 65 for future pensioners		
Males	26.5	26.6
Females	28.5	28.6

The estimation of the defined benefit obligations is sensitive to the actuarial assumptions set out in the table above. The sensitivity analysis below have been determined based on reasonably possible changes of the assumptions occurring at the end of the reporting period and assumes for each change that the assumption analysed changes while all the other assumptions remain constant. The assumptions in longevity, for example, assume that life expectancy increases or decreases for men and women. In practice, this is unlikely to occur, and changes in some of the assumptions may be interrelated. The estimations in the sensitivity analysis have followed the accounting policies for the scheme, i.e. on an actuarial basis using the projected unit credit method. The methods and types of assumptions used in preparing the sensitivity analysis below did not change from those used in the previous period.

Impact on the Defined Benefit Obligation in the scheme	Increase in Assumption	Decrease in Assumption
	£ million	£ million
Longevity (increase or decrease in 1 year)	(5.48)	5.46
Rate of inflation (increase or decrease by 0.1%)	3.01	(2.97)
Rate of increase in salaries (increase or decrease by 0.1%)	0.79	(0.79)
Rate of increase in pensions (increase or decrease by 0.1%)	3.01	(2.97)
Rate for discounting scheme liabilities (increase or decrease by 0.1%)	(3.68)	3.74

NOTES TO THE ACCOUNTS

f) Impact on the Authority's Cash Flows

The objectives of the scheme are to keep employers' contributions at as constant a rate as possible. The County Council has agreed a strategy with the scheme's actuary to achieve a funding level of 100% over the next 20 years. Funding levels are monitored on an annual basis. The next triennial valuation is due to be completed on 31 March 2016.

The scheme will need to take account of the national changes arising from the Public Pensions Services Act 2013. The Act provides for regulations to be made to establish new career average revalued earnings schemes to pay pensions and other benefits.

The Council anticipates paying standard contributions of £3.910 million to the fund for the accounting period ending 31 March 2016. In addition, estimated Strain on Fund contributions will be £380,000.

The weighted average duration of the defined benefit obligation for scheme members is 17.8 years (17.8 years 2013/14).

Further information on the Pension Fund can be obtained from:
Pensions Services
Hampshire County Council
The Castle
Winchester
SO23 8UB Telephone: (01962) 845588

43. EXTERNAL AUDIT COSTS

The following fees payable to the external auditors, Ernst & Young LLP, relating to external audit and inspection were incurred. In 2014/15 a rebate of £6,000 (2013/14 £8,000) was received from the Audit Commission.

2013/14		2014/15
£000		£000
73	External audit services carried out by the appointed auditor	73
8	Certification of grant claims and returns	6
(8)	Audit Commission Rebate	(6)
73		73

NOTES TO THE ACCOUNTS

44. GRANTS INCOME

Details of income credited to the Comprehensive Income and Expenditure Account are as follows:

2013/14		2014/15
£000	Service Specific Revenue Grants and Contributions (included in cost of services)	£000
	Department for Communities and Local Government	
0	Family Annex Grant	(34)
(86)	Bellwin	(66)
(286)	NNDR Collection	(286)
0	Repairs and Renewals Admin Grant	(2)
0	Flood Relief	(41)
(11)	Housing Benefit Reforms Transition Fund	0
(392)	Disabled Facilities Grants	(413)
0	Neighbourhood Planning Grant	(10)
(69)	New Burdens Council Tax Reform Grant	(83)
(26)	New Burdens Housing Benefits Grant	(22)
0	New Burdens Business Rates Admin Costs Grant	(16)
0	Reward Recycling Scheme	(163)
(697)	Weekly Collection Support Grant	(519)
	Department for Work and Pensions	
(866)	Housing and Council Tax Benefit Administration	(776)
(42,965)	Housing Benefit Subsidy	(42,908)
3	Council Tax Benefit Subsidy	0
(193)	Discretionary Housing Payments	(202)
	Other Government Grants	
(20)	Individual Electoral Registration	(101)
0	Improvement and Development Agency	(4)
0	Repairs and Renewals Grant	(219)
(45,608)	Total Government Grants	(45,865)
	Other Grants and Contributions	
(416)	Project Integra - Recycling	(335)
(1,159)	Developers' Contributions	(954)
(10)	Improvement Grants	(9)
(70)	Transportation	(40)
(74)	Other	(57)
(1,729)	Total Other Grants and Contributions	(1,395)
(47,337)	Total Service Revenue Grants and Contributions	(47,260)

NOTES TO THE ACCOUNTS

2013/14		2014/15
£000	Non-Ringfenced Revenue Government Grants	£000
	Non Domestic Rates Income and Expenditure	
21,365	Tariff	22,012
(22,290)	Retention Scheme Income	(24,410)
(1,500)	Safety Net	0
(805)	S31 Grant	(1,485)
(3,230)		(3,883)
	Department for Communities and Local Government	
(5,277)	Revenue Support Grant	(4,108)
(1,018)	New Homes Grant	(1,584)
(118)	Council Tax Freeze Grant	(116)
0	Transparency Code Grant	(6)
(9)	New Burdens Community Right to Challenge	(9)
0	New Burdens Right Time Information HMRC Data Matching	(6)
(7)	New Burdens Inspire Annex III	0
(8)	New Burdens Assets of Community Value	(8)
(35)	Council Tax Support Transitional Grant	0
(6,472)		(5,837)
(9,702)	Total Non-Ringfenced Revenue Government Grants	(9,720)
	Capital Grants and Contributions	
(628)	Coast Protection	(545)
(530)	Kerbside Glass	0
0	Eling Tide Mill	(19)
(36)	One Site	0
34	Developers' Contributions	(374)
(16)	Ringwood Gateway	0
(618)	Capital Receipts	(127)
(1,794)	Total Capital Grants and Contributions	(1,065)
(58,833)	Total Grants and Contributions Income	(58,045)

45. LEASES

Finance Leases with the Council acting as Lessee

In 2014/15 there were no rental payments to lessors for Finance Leases.

NOTES TO THE ACCOUNTS

Operating Leases with the Council acting as Lessee

The Council has acquired 18 properties by entering into operating leases. The assets are not owned by the Council and no asset is recorded in the Council's accounts.

Future minimum lease payments due under the non-cancellable leases in future years are:

Lease Rental Payments for:	31 March 2014	31 March 2015
	£000	£000
Not later than one year	69	95
Later than one year but not later than 5 years	260	320
Later than 5 years	689	716
Total Lease Rentals	1,018	1,131

Expenditure of £97,347 was charged to the Comprehensive Income and Expenditure Statement during the year (£86,780 in 2013/14).

Operating Leases with the Council acting as Lessor

The Council leases out property and equipment under operating leases for the provision of community services and economic development.

The future minimum lease payments receivable under the material leases in future years are:

Lease Rental Payments for:	31 March 2014	31 March 2015
	£000	£000
Not later than one year	556	550
Later than one year but not later than 5 years	2,063	2,114
Later than 5 years	29,549	29,636
Total Lease Rentals	32,168	32,300

The portion of the lease rental for Hythe Marina that is based on a profit share basis has not been included in this table. As the profit cannot be accurately projected over the 972 year term of the lease any estimate will be inaccurate and therefore has been omitted. The income for 2014/15 was £134,030 (2013/14 £126,312).

There are 38 leases that are not included in this table, that have little value or contain an immediate break clause.

46. MEMBERS' ALLOWANCES

During 2014/15, payments to Members of the Council amounted to £474,283. For 2013/14 the equivalent amount was £476,818.

NOTES TO THE ACCOUNTS

47. MINORITY INTEREST

At 31 March 2015, a New Forest District Council councillor was on the New Forest Enterprise Centre Ltd's board of 7 members with voting rights and therefore the Council had a minority interest.

48. NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS

The Financial Liabilities and Financial Assets disclosed in the Balance Sheet are analysed across the following categories:

Financial Liabilities

The financial liabilities held by the Council during the year were long-term loans from the Public Works Loan Board and are measured at amortised cost.

FINANCIAL LIABILITIES	Long-Term		Current	
	31 March 2014	31 March 2015	31 March 2014	31 March 2015
	£000	£000	£000	£000
Loans at amortised cost:				
PWLB principal sum borrowed	144,510	144,310	201	200
Accrued Interest	0	0	51	51
Total Borrowing	144,510	144,310	252	251
Liabilities at amortised cost:				
Trade Creditors	0	0	5,260	6,546
Total Financial Liabilities	144,510	144,310	5,512	6,797

Financial Assets

The financial assets held by the Council during the year are held under the following classifications:

Loans and Receivables comprising:

- Cash
- Bank accounts
- Fixed term deposits with banks and building societies
- Loans to other local authorities

Available for Sale Financial Assets comprising:

- Money market funds
- Certificates of deposit and covered bonds issued by banks and building societies
- Bonds issued by multilateral development banks and UK companies

NOTES TO THE ACCOUNTS

FINANCIAL ASSETS	Long-Term		Current	
	31 March 2014	31 March 2015	31 March 2014	31 March 2015
	£000	£000	£000	£000
Loans and receivables:				
Principal at amortised cost	0	4,000	25,000	10,000
Accrued Interest	0	0	105	60
Available-for-sale investments:				
Principal at amortised cost	0	2,040	0	15,118
Accrued Interest	0	0	0	29
Total Investments	0	6,040	25,105	25,207
Loans and receivables:				
Cash	0	0	657	479
Cash equivalents at amortised cost	0	0	5,000	4,520
Accrued Interest	0	0	2	2
Available-for-sale investments:				
Cash equivalents at fair value	0	0	10,950	14,470
Accrued Interest	0	0	5	5
Total Cash and Cash Equivalents	0	0	16,614	19,476
Loans and receivables:				
Trade Debtors	0	0	2,398	3,314
Total Financial Assets	0	6,040	44,117	47,997

Accrued interest is already accounted for in the Comprehensive Income and Expenditure Account.

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

	2013/14				2014/15			
	Financial Liabilities Amortised Cost	Financial Assets Loans and Receivables	Available for sale Assets	Total	Financial Liabilities Amortised Cost	Financial Assets Loans and Receivables	Available for sale Assets	Total
	£000	£000	£000	£000	£000	£000	£000	£000
Interest Expense	4,463	0	0	4,463	4,511	0	0	4,511
Interest Income	0	(303)	0	(303)	0	(228)	(151)	(379)
Dividend Income	0	0	0	0	0	0	(61)	(61)
Interest and Investment Income	0	(303)	0	(303)	0	(228)	(212)	(440)
Gains on revaluation	0	0	0	0	0	0	(40)	(40)
Net (Gain)/Loss for the year	4,463	(303)	0	4,160	4,511	(228)	(252)	4,031

NOTES TO THE ACCOUNTS

Financial Instruments Key Risks

The Council has adopted CIPFA's Code of Practice on Treasury Management (and subsequent amendments) and complies with The Prudential Code for Capital Finance in Local Authorities (both revised in November 2011).

As part of the adoption of the Treasury Management Code, the Council approves a Treasury Management Strategy before the commencement of each financial year. The Strategy sets out the parameters for the management of risks associated with Financial Instruments. The Council also produces Treasury Management Practices specifying the practical arrangements to be followed to manage these risks.

The Treasury Management Strategy includes an Annual Investment Strategy in compliance with the Communities and Local Government guidance for local authorities. This Guidance emphasises that priority is to be given to security and liquidity, rather than yield. The Council's Treasury Strategy, together with its Treasury Management Practices are based on seeking the highest rate of return consistent with the proper levels of security and liquidity.

The main risks covered 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 rate movements.

While the Council maintains responsibility for the Treasury Strategy a contract is held with the Hampshire County Council Treasury Team to administer the day-to-day Treasury function on behalf of the Council.

Credit Risk - Investments

The Council manages credit risk by ensuring that investments are only placed with organisations of high credit quality as set out in the Treasury Management Strategy. These include commercial entities with a minimum long-term credit rating of A-. Recognising that credit ratings are imperfect predictors of default, the Council has regard to other measures including credit default swap and equity prices when selecting commercial organisations for investment.

A limit of £5 million of the total portfolio is placed on the amount of money that can be invested with a single counterparty. No more than £10 million in total can be invested for a longer period than one year. These limits were set for 2014/15 on 24 February 2014.

The Council's maximum exposure to credit risk in relation to its investments in banks, building societies and money market funds cannot be assessed generally as the risk of any institution failing to make interest payments or repay the principal sum will be specific to each individual institution. Recent experience has shown that it is rare for such entities to be unable to meet their commitments. A risk of irrecoverability applies to all of the Council's deposits, but there was no evidence at 31 March 2015 that this was likely to crystallise.

NOTES TO THE ACCOUNTS

The credit quality of £4.05 million of the Council's investments is enhanced by collateral held in the form of covered bonds collateralised by UK residential mortgages. The collateral significantly reduces the likelihood of the Council suffering a credit loss on these investments.

The tables below summarise the credit risk exposures of the Council's investment portfolio by investing period and credit rating, including accrued interest.

Counterparty	Balance invested as at 31 March 2015					
	Call Accounts	Up to 1 month	> 1 month and < 6 months	> 6 months and < 12 months	> 12 months	Total
	£000	£000	£000	£000	£000	£000
Banks - UK	0	1,009	6,021	0	0	7,030
Banks - Overseas	4,522	0	0	0	0	4,522
Money Market Funds	14,476	0	0	0	0	14,476
Building Societies - UK	0	0	1,007	1,005	0	2,012
Local Authorities	0	0	0	1,000	4,018	5,018
Certificates of Deposit	0	1,512	6,517	0	0	8,029
Bonds	0	0	1,506	5,612	0	7,118
Property Funds	0	0	0	0	2,040	2,040
Total	18,998	2,521	15,051	7,617	6,058	50,245

Bond Ratings	Long-term		Short-term	
	31 March 2014	31 March 2015	31 March 2014	31 March 2015
	£000	£000	£000	£000
AA+	0	0	0	4,046
AA-	0	0	5,002	7,522
A+	0	0	0	3,014
A	0	0	17,081	12,114
A-	0	0	2,001	2,015
BBB+	0	0	6,023	0
AAA Money Market Funds	0	0	10,955	14,476
Unrated local authorities	0	4,018	0	1,000
Unrated pooled funds	0	2,040	0	0
Total	0	6,058	41,062	44,187

NOTES TO THE ACCOUNTS

The following analysis summarises the Council's maximum exposure to credit risk on other financial assets, based on experience of default, adjusted to reflect current market conditions. The Council hold no bonds but receives income from Council Tax, Business Rates and for Housing Benefit overpayments. These are statutory debts and whilst the Council endeavours to collect this income, it cannot choose who its counterparties are in relation to these debts. Such statutory debts are not classified as financial instruments, and for this reason no reference to statutory debts is contained within the following tables.

Bond Ratings	Amount at 31 March 2015	Historical experience of default	Market Conditions at 31 March 2015	Estimated maximum exposure to default
	£000	%	%	£000
Trade Debtors	3,314	0.61%	0.81%	27
Total	3,314			27

No breaches of the Council's counterparty criteria occurred during the reporting period and the Council does not expect any losses from non-performance by any counterparties in relation to deposits.

NOTES TO THE ACCOUNTS

Trade Debtors

The Council does not generally allow credit for its trade debtors. The amount that is past its due date can be analysed by age as follows:

	31 March 2014	31 March 2015
	£000	£000
Less than three months	1,569	2,404
Three months to one year	286	393
More than one year	543	517
Total	2,398	3,314

The Council initiates a legal charge on property where, for instance, tenants have purchased their Council dwelling or have been granted a repayable renovation loan and cannot afford to pay immediately. The total collateral at 31 March 2015 was £7,380.

Sundry Debtors bad debt provisions are based upon service areas for invoices that are still unpaid one year after they fall due, then adjusted for known changes and experience. Housing Rents bad debt provisions are based on percentages of the value of arrears for current and former tenants.

Liquidity Risk

The Council manages its liquidity position through the risk management procedures above (the setting and approval of prudential indicators and the approval of the treasury and investment strategy reports), also through cash flow management procedures required by the CIPFA Code of Practice. This seeks to ensure that cash is available when needed.

In the event of an unexpected cash requirement the Council has ready access to borrowings from the money markets to cover any day-to-day cash flow need, and the PWLB and money markets for access to longer-term funds. The Council is also required to provide a balanced budget through the Local Government Finance Act 1992, which ensures sufficient monies are raised to cover annual expenditure. There is therefore no significant risk that it will be unable to raise finance to meet its commitments.

The maturity analysis of financial assets excluding accrued interest and sums due from customers is as follows:

	31 March 2014	31 March 2015
	£000	£000
Less than one year	40,950	44,108
Between two and three years	0	4,000
No fixed maturity date	0	2,040
Total	40,950	50,148

All trade and other payables (£3.314 million) are due to be paid in less than one year and are not shown in the table above.

NOTES TO THE ACCOUNTS

Refinancing and Maturity Risk

The Council maintains a significant debt and investment portfolio. Whilst the cash flow procedures above are considered against the refinancing risk procedures, longer-term risk to the Council relates to managing the exposure to replacing financial instruments as they mature. This risk relates to both the maturing of longer-term financial liabilities and longer-term financial assets.

The Council has ready access to borrowing at favourable rates from the Public Works Loan Board and other local authorities, and at higher rates from banks and building societies. There is no perceived risk that the Council will be unable to raise finance to meet its commitments. It is however exposed to the risk that it may need to refinance a significant proportion of its borrowing at a time of unfavourably high interest rates. This risk is managed by maintaining a spread of fixed rate loans, limiting the amount of the Council's borrowing that matures in any one financial year.

The maturity analysis of financial liabilities is as follows, with the maximum and minimum limits for fixed interest rates maturing in each period as approved by Council in the Revised Treasury Management Strategy:

	Approved maximum limits 2014/15		Actual 31 March 2014		Actual 31 March 2015	
	£m	%	£m	%	£m	%
Less than one year	45	25	0.2	0	0.2	0
Between one and two years	45	25	0.2	0	0.2	0
Between two and five years	45	25	8.8	6	12.9	9
Between five and ten years	45	25	21.5	15	21.3	15
Between ten and twenty years	180	100	41.0	28	41.0	28
Between twenty and thirty years	180	100	41.0	28	41.0	28
Over thirty but not over forty years	180	100	32.0	23	27.9	20
Total			144.7	100	144.5	100

The minimum limits have been set at zero and the maximum limit for more than 10 years at 100%. This is to facilitate the premature repayment and replacement of all PWLB loans with a longer maturity profile should this be required. The 25% maximum limit on the other periods of less than 10 years is to ensure an even maturity profile of short and medium term borrowing.

Market Risk

Interest rate risk – The Council is exposed to interest rate movements on its borrowings and investments. Movements in interest rates have an impact on the Council. For instance, a rise in variable and fixed interest rates would have the following effects:

- Borrowings at variable rates – the interest charged to the Comprehensive Income and Expenditure Statement will rise. This Council undertook no short term cash flow borrowing in 2014/15 therefore applying the 1% variation would make no difference to the interest paid;
- Borrowings at fixed rates – the fair value of the borrowing will fall (no impact on revenue balances);
- Investments at variable rates – the interest income credited to the Comprehensive Income and Expenditure Statement will rise; and
- Investments at fixed rates – the fair value of the assets will fall (no impact on revenue balances).

NOTES TO THE ACCOUNTS

Investments classed as 'loans and receivables' and loans borrowed are not carried at fair value, so changes in their fair value will have no impact on Comprehensive Income and Expenditure. However, changes in interest payable and receivable on variable rate borrowings and investments will be posted to the Surplus or Deficit on the Provision of Services. Movements in the fair value of fixed rate investments classed as 'available for sale' will be reflected in Other Comprehensive Income and Expenditure.

The Treasury Management Strategy aims to mitigate these risks by setting upper limits on its net exposures to fixed and variable interest rates. At 31 March 2015, all of the £144.510 million of principal borrowed was at fixed rates. The Council's investments with less than one year to maturity (£44.19 million including accrued interest at 31 March 2015) are classed as being held at variable rates and exposed to interest rate risk.

If all interest rates had been 1% higher (with all other variables held constant) the financial effect would be:

	2013/14	2014/15
	£000	£000
Increase in interest receivable on variable rate investments	(465)	(442)
Impact on Surplus or Deficit on the Provision of Services	(465)	(442)
Decrease in fair value of available for sale financial assets	0	71
Impact on Comprehensive Income and Expenditure Account	0	71
Decrease in fair value of fixed rate borrowings liabilities (no impact on the Surplus or Deficit on the Provision of Services or Other Comprehensive Income and Expenditure)	18,549	18,925

The approximate impact of a 1% fall in interest rates would be as above but with the movements being reversed.

Price Risk – The market prices of the Council's fixed rate bond investments and its units in pooled bond funds are governed by prevailing interest rates and the market risk associated with these instruments is managed alongside interest rate risk.

The Council's investment in a pooled property fund is subject to the risk of falling commercial property prices. This risk is limited by the Council's investment strategy. A fall in commercial property prices would result in a charge to Other Comprehensive Income and Expenditure but this would have no impact on the General Fund until the investment was sold.

Foreign Exchange Risk – The Council has no financial assets or liabilities denominated in foreign currencies. It therefore has no exposure to loss arising from movements in exchange rates.

Guarantor Risk – The Council acts as a guarantor to a loan held by the New Forest Enterprise Centre Ltd at Rushington. The current estimated guarantee is £1.873 million and has 5 years remaining on the initial 30 year guarantee. The Enterprise Centre's financial position is currently healthy, no payment has been made to date under the guarantee and the value of the building more than offsets the current loan liability. The Council therefore considers the guarantee risk to be very low and has made no charge against its Comprehensive Income and Expenditure Account.

NOTES TO THE ACCOUNTS

Fair value of Assets and Liabilities carried at Amortised Cost

Financial assets classified as loans and receivables and all non-derivative financial liabilities are carried in the Balance Sheet at amortised cost (in long-term assets/liabilities with accrued interest in current assets/liabilities). Their fair values have been estimated by calculating the net present value of the remaining contractual cash flows at 31 March 2015, using the following assumptions:

- The fair values of loans from the PWLB as at 31/3/2015 have been discounted at the published interest rates for new PWLB certainty rate loans with an identical remaining time to maturity arranged on 31 March; the fair value figure quoted for 31 March 2014 was based on the PWLB Premature Repayment Rate. The fair value at 31/3/2014 based on certainty rates would have been £129.203m. The Council's Treasury Advisors advised that the certainty rate gives a more accurate representation of fair value as defined in the Code.
- No early repayment or impairment is recognised;
- The fair value of short-term investments, including available for sale assets and trade payables and receivables is assumed to approximate to the carrying amount;
- The fair values of long-term investments have been discounted at the market rates for similar instruments with similar remaining terms to maturity on 31 March.

The fair values calculated are as follows:

	31/03/2014		31/03/2015	
	Carrying £000	Fair value £000	Carrying £000	Fair value £000
PWLB debt	(144,711)	(146,735)	(144,510)	(152,287)
Accrued Interest	(51)	(51)	(51)	(51)
Trade Creditors	(5,260)	(5,260)	(6,546)	(6,546)
Total Liabilities	(150,022)	(152,046)	(151,107)	(158,884)
Long-term Loans and Receivables	0	0	4,000	4,028
Other Investments/Available for sale assets	25,105	25,105	27,247	27,247
Cash and Cash Equivalents	16,614	16,614	19,476	19,476
Trade Debtors	2,398	2,398	3,314	3,314
Short-term Debtors	245	245	246	246
Long-term Debtors	2,357	2,439	2,157	2,146
Total Assets	46,719	46,801	56,440	56,457

The fair value of liabilities is higher than the carrying amount because the Council's portfolio of loans includes a number of loans where the interest rate payable is higher than the current rates available for similar loans as at the Balance Sheet date.

The fair value for long-term assets at the Balance Sheet date is higher than the carrying amount because the interest rate on similar investments is now lower than that obtained when the investment was originally made.

Short-term investments and assets available for sale are straight forward instruments and there is no market variation to calculate.

The fair value adjustment is a note to the accounts only; no accounting entry is required.

NOTES TO THE ACCOUNTS

49. OFFICERS' REMUNERATION

The senior employees whose salary exceeded £50,000 per annum for 2014/15 were:

	Notes	Salary (Including fees and Allowances)	Bonuses	Compensation for loss of office	Benefits in Kind	Total Remuneration excluding pension contributions 2014/15	Pension contributions	Total Remuneration including pension contributions
		£	£	£	£	£	£	£
Chief Executive	49a	128,154	0	0	0	128,154	14,036	142,190
Executive Director	49b	58,165	0	0	0	58,165	7,137	65,302
Executive Director		93,276	0	0	0	93,276	11,737	105,013
Head of Communities and Employment		65,238	0	0	1,359	66,597	8,307	74,904
Head of Housing and Customer Services		67,048	0	0	1,165	68,213	8,540	76,753
Head of Environment Services		66,178	0	0	0	66,178	8,307	74,485
Head of Human Resources		66,178	0	0	0	66,178	8,307	74,485
Head of Information and Communication Technology		66,428	0	0	0	66,428	8,307	74,735
Head of Legal and Democratic Services		67,605	0	0	925	68,530	8,540	77,070
Head of Planning and Transportation		65,896	0	0	379	66,275	8,307	74,582
Head of Property Services		63,414	0	0	0	63,414	8,307	71,721
Head of Public Health and Community Safety		66,178	0	0	0	66,178	8,307	74,485
		873,758	0	0	3,828	877,586	108,139	985,725

- a) The Chief Executive figures include the Returning Officer salary of £7,186.
- b) One of the Executive Directors reduced his hours to 22.5 out of 37 from 1 December 2013. The annual salary for the post was £89,594.

NOTES TO THE ACCOUNTS

For 2013/14 the comparative figures for those senior officers were:

	Notes	Salary (Including fees and Allowances)	Bonuses	Compensation for loss of office	Benefits in Kind	Total Remuneration excluding pension contributions 2013/14	Pension contributions	Total Remuneration including pension contributions
		£	£	£	£	£	£	£
Chief Executive	49c	130,374	0	0	3,488	133,862	16,870	150,732
Executive Director	49d	80,801	0	0	0	80,801	10,103	90,904
Executive Director		92,389	0	0	0	92,389	11,621	104,010
Head of Communities and Employment		62,786	0	0	3,089	65,875	8,225	74,100
Head of Housing and Customer Services		64,733	0	0	3,504	68,237	8,455	76,692
Head of Environment Services		66,466	0	0	0	66,466	8,225	74,691
Head of Housing	49e	47,730	0	0	0	47,730	3,427	51,157
Head of Human Resources		65,550	0	0	0	65,550	8,225	73,775
Head of Information and Communication Technology		65,733	0	0	0	65,733	8,225	73,958
Head of Legal and Democratic Services		64,545	0	0	8,529	73,074	8,455	81,529
Head of Planning and Transportation		62,786	0	0	4,254	67,040	8,225	75,265
Head of Property Services		63,701	0	0	0	63,701	8,225	71,926
Head of Public Health and Community Safety		66,282	0	0	0	66,282	8,225	74,507
		933,876	0	0	22,864	956,740	116,506	1,073,246

- c) The Chief Executive figures include the Returning Officer salary and employer's pension contributions of £13,226 and £1,710 respectively.
- d) One of the Executive Directors has reduced his hours to 22.5 out of 37 since 1 December 2013. The annual salary for the post was £88,707.
- e) The Head of Housing Services reduced his hours to 22.5 from 37 from 1 September 2013 and left the Council on 16 February 2014. The annual salary for the post was £62,786.

The other officers whose remuneration, including termination benefit costs and excluding pension contributions, was above £50,000 were:

Remuneration Band	Number of Employees			
	2013/14		2014/15	
	Left During Year	Total	Left During Year	Total
£ 50,000 - £ 54,999	0	10	0	7
£ 55,000 - £ 59,999	0	2	0	3
	0	12	0	10

NOTES TO THE ACCOUNTS

50. TERMINATION BENEFITS

The Council terminated the contracts of 9 employees in 2014/15, incurring costs of £67,000 (9 employees, £91,000 in 2013/14). Further provision at 31 March 2015 has been made for 2 terminations for £74,000 which have been committed to, payments for these will be incurred in 2015/16.

Exit Package Cost Band (including special payments)	Number of Compulsory Redundancies	Number of Other Departures Agreed	Total Number of Exit Packages by Cost Band	Total Cost of Exit Packages in Each Band £
2014/15				
£0 - £60,000	3	6	9	67,109
Total	3	6	9	67,109
2013/14				
£0 - £20,000	1	6	7	46,440
£20,001 - £40,000	0	2	2	44,382
Total	1	8	9	90,822

51. RELATED PARTIES

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 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 the majority of funding in the form of grants and prescribes the terms of many of the transactions that the Council has with other parties. Details of transactions with government departments are set out in note 44 to the Accounts.

During 2014/15 the Council provided financial services and human resources support to New Forest National Park Authority including the roles of S151 Officer and Internal Audit. The total revenue from these services for 2014/15 was £79,000 (£116,000 in 2013/14) and total income for the year was approximately £276,000 (£355,000 in 2013/14). The New Forest National Park Authority provided Trees and Ecology Services to the Council costing £115,500 in 2014/15 (£105,000 in 2013/14) and other expenditure for the year was £35 (£1,000 in 2013/14).

NOTES TO THE ACCOUNTS

Members of the Council have direct control over the Council's financing and operating policies. The total of members' allowances paid is shown in note 46. During 2014/15 £500 (2013/14 £3,700) was paid to companies in which 2 members (2013/14 2 members) had an interest. In addition, payments of £17,800 (2013/14 £18,600) were paid to organisations in which members have an interest, but on which there is no Council representative. There were no material transactions with any chief officers during the year.

52. REVENUE EXPENDITURE FUNDED FROM CAPITAL UNDER STATUTE

This note relates to capital expenditure that does not result in the Council owning tangible fixed assets. Such expenditure is required to be treated as revenue expenditure in accordance with the SORP but under statute can be funded from capital resources.

	Charged to revenue 2014/15 £000	Capital resource funding 2014/15 £000
Housing		
- Improvement Grants	706	706
- Housing Associations	71	71
General Fund		
- Leisure Schemes	521	521
- Transportation	497	497
- Environmental Initiatives	18	18
- Economic Development	115	115
	1,928	1,928

53. HERITAGE ASSETS

The Code of Practice on Local Authority Accounting in the United Kingdom adopted FRS 30 Heritage Assets in 2011/12. The Council considered its assets and identified 51 paintings and 37 other items of civic regalia which could fall within the definition of Heritage Assets. The Council believes that the value of these assets, which are insured for a sum up to £269,700, would not be material to the financial statements and that obtaining actual valuations for the assets would involve a disproportionate cost in comparison to the benefits to the users of the Council's financial statements. The assets have therefore not been recognised on the Balance Sheet. The Council has no intention of selling any of these assets.

54. ASSETS HELD FOR SALE

There were no assets held for disposal at 31 March 2015.

55. AUTHORISATION OF ACCOUNTS FOR ISSUE

This Statement of Accounts was authorised for issue on 25 September 2015 by Cllr A O'Sullivan and Mr R Jackson. There have been no known material events after the Balance Sheet date.

**HOUSING REVENUE ACCOUNT
INCOME AND EXPENDITURE ACCOUNT**

2013/14		Notes	2014/15
£000			£000
	Income		
(24,941)	Dwelling rents		(25,842)
(720)	Non-dwelling rents		(718)
(727)	Charges for services and facilities		(721)
(293)	Contributions towards expenditure		(401)
(26,681)			(27,682)
	Expenditure		
4,240	Repairs and maintenance	3	4,227
4,761	Supervision and management		4,824
14	Rents, rates, taxes and other charges		7
(3,764)	Depreciation, impairment and revaluation of non-current assets	4	(22,831)
34	Debt Management Costs		20
80	Movement in the allowance for bad debts		78
143	Sums directed by the Secretary of State that are in accordance with the Code	5	(0)
5,508			(13,675)
(21,173)	Net Cost of HRA Services as included in the Comprehensive Income and Expenditure Statement		(41,357)
74	HRA services' share of Corporate and Democratic Core		74
(21,099)	Net Expenditure for HRA Services		(41,283)
	HRA share of the Operating Income and Expenditure included in the whole authority Net Expenditure of Continuing Operations but not allocated to specific services		
(1,117)	(Gain) / Loss on sale of HRA non-current assets		(1,307)
4,467	Interest payable and similar charges		4,467
(21)	Interest and investment income		(51)
610	Net interest on the net defined benefit liability / (asset)	6	485
(13)	Income and expenditure in relation to investment properties and changes in their fair value		(13)
(575)	Capital Grants and Contributions Receivable		(389)
(17,748)	(Surplus) or Deficit for the year on HRA services		(38,091)

NOTES TO THE HOUSING REVENUE ACCOUNT

1. HOUSING REVENUE ACCOUNT ASSETS

a) Categorised by type of accommodation

31 March 2015	Houses	Bungalows	Flats	Total
Bedsits	0	0	195	195
1 Bedroom	1	363	757	1,121
2 Bedrooms	718	499	406	1,623
3 Bedrooms	1,943	18	5	1,966
4+ Bedrooms	132	1	0	133
Total	2,794	881	1,363	5,038

31 March 2014	Houses	Bungalows	Flats	Total
Bedsits	0	0	204	204
1 Bedroom	1	363	745	1,109
2 Bedrooms	715	499	406	1,620
3 Bedrooms	1,936	18	5	1,959
4+ Bedrooms	132	1	0	133
Total	2,784	881	1,360	5,025

b) Open Market Value with vacant possession

The following analysis shows the value of dwellings within the HRA if they were sold on the open market with vacant possession.

	1 April 2013 £000	1 April 2014 £000
Council Housing Assets		
Standard Dwellings	749,595	786,832
Restricted Housing	58,966	61,206
Special Housing	3,024	2,738
Garages	8,972	8,972
	820,557	859,748
Other Assets		
Investment Property	183	183
Land and Other Buildings	430	430
Community Centre	57	57
	670	670
	821,227	860,418

NOTES TO THE HOUSING REVENUE ACCOUNT

c) Gross Value and Number by Type of HRA Assets

This analysis shows the gross value and number by types of dwelling within the HRA. The Balance Sheet value is less than the open market value as it reflects the economic cost to government of providing council housing at less than open market rents.

	1 April 2014		31 March 2015	
	Number of Units	Value £000	Number of Units	Value £000
Council Housing Assets				
Standard Dwellings	4,438	251,786	4,451	284,253
Restricted Housing	568	19,586	568	21,600
Special Housing	19	2,738	19	3,093
Garages	1,853	8,971	1,844	8,928
	6,878	283,081	6,882	317,874
Other Assets				
Investment Property	1	183	1	183
Land and Other Buildings	7	430	9	595
Community Centre	1	57	1	57
	9	670	11	835
Total	6,887	283,751	6,893	318,709

d) Capital Expenditure

Housing Revenue Account capital expenditure in 2014/15 amounted to £13.670 million and was applied to:

	2013/14 £000	2014/15 £000
Planned Maintenance of Housing Revenue Account Properties	4,202	4,801
Environmental Enhancements	229	468
New Build	47	769
New Standard Housing	6,168	7,632
Total	10,646	13,670

e) Funding of HRA Capital Expenditure

	2013/14 £000	2014/15 £000
Revenue Contributions	2,415	5,871
Major Repairs Reserve	5,248	5,262
Developers' Contributions	1,154	316
Capital Receipts	1,829	2,221
Total	10,646	13,670

NOTES TO THE HOUSING REVENUE ACCOUNT

2. RENT ARREARS

	31 March 2014	31 March 2015
	£000	£000
Rent Arrears		
- current tenants	324	336
- former tenants	282	332
	606	668
Less provision for bad debts	(408)	(458)
Anticipated collectable arrears of rent	198	210

3. HOUSING REPAIRS

The following table shows expenditure for the different categories of work undertaken on housing repairs:

	2013/14	2014/15
	£000	£000
Cyclical Maintenance	1,268	1,158
Reactive Maintenance	2,478	2,568
Disabled Facilities Grants	494	501
Total	4,240	4,227

The Council also undertook £4.801 million of housing works, which were treated as capital expenditure. The main categories of work were central heating, roof replacement and kitchen and bathroom modernisations.

NOTES TO THE HOUSING REVENUE ACCOUNT

4. HRA DEPRECIATION AND IMPAIRMENT OF FIXED ASSETS

a) Depreciation

The figures below show the depreciation charged to the Housing Revenue Account analysed over type of asset.

	2013/14 £000	2014/15 £000
Standard Accommodation	4,581	4,710
Restricted Accommodation	360	366
Special Housing	173	51
	5,114	5,127
Garages	128	128
Other Buildings	6	6
	5,248	5,261
Offices (included in Supervision and Management costs)	1	1
Total	5,249	5,262

b) Impairment

In 2014/15 there was a net increase in Housing asset values credited to the Housing Revenue Account of £39.302 million but these were offset by capital expenditure not enhancing value of £11.209 million, to arrive at a net impairment credit of £28.093 million. This compares to a net credit of £9.013 million in 2013/14. In 2014/15 other net Housing asset valuation increases credited to the Revaluation Reserve were £422,000 (£1,000 in 2013/14).

	2013/14 £000	2014/15 £000
Housing Revenue Account/Capital Adjustment Account		
Revaluation Increases	(17,647)	(39,302)
Revaluation Decreases	0	0
Net Revaluation (Increases)/Decreases	(17,647)	(39,302)
Capital Expenditure not enhancing asset value	8,634	11,209
Total Housing Revenue Account Impairment	(9,013)	(28,093)
Revaluation Reserve		
Revaluation Increases	(1)	(422)
Revaluation Decreases	0	0
Total Revaluation Reserve	(1)	(422)
Total HRA Impairments/Revaluations	(9,014)	(28,515)

NOTES TO THE HOUSING REVENUE ACCOUNT

5. SUMS DIRECTED BY THE SECRETARY OF STATE

In 2014/15 the Council's actual rent levels were below the limit level for subsidy purposes and therefore no transfer was required from the Housing Revenue Account to the General Fund, in accordance with the Housing Revenue Account (Rent Rebate Subsidy Deductions Direction 2003).

	2013/14	2014/15
	£000	£000
Sums directed by the Secretary of State	143	0

6. HRA CONTRIBUTION TO/FROM THE PENSION RESERVE

The Council has applied IAS19 to the Housing Revenue Account. This means that service expenditure reflects the appropriate allocation of retirement costs earned in the year rather than actual employer's contributions made. An appropriation has been made from the Pensions Reserve to negate the impact on the Housing Revenue Account balance of all items. The following transactions have been made in the HRA:

	2013/14	2014/15
	£000	£000
Net Cost of Services:		
Current service cost	686	673
Past service cost	24	24
Net Operating Expenditure:		
Net Interest Expense	610	485
Amounts to be met from Government Grants and Local Taxation		
Movement on pensions reserve	(756)	(559)
Actual amount charged against dwelling rents for pensions in the year:		
Employers' contributions payable to scheme	564	623

NOTES TO THE HOUSING REVENUE ACCOUNT

7. MAJOR REPAIRS RESERVE

The following table shows the movements on the Major Repairs Reserve.

	2013/14 £000	2014/15 £000
Balance 1 April	0	0
Transferred to Reserve	5,248	5,262
Debits in respect of capital expenditure on land, houses and other property	(5,248)	(5,262)
Balance 31 March	0	0

8. CAPITAL RECEIPTS

Total Capital Receipts in respect of the Housing Revenue Account in 2014/15 amounted to £3.217 million (2013/14 was £3.380 million) after adjusting for administration and other costs.

The amount that was due to be paid over to the DCLG under the Local Government Act 2003, and included in this total, amounted to £0.561 million (2013/14 was £0.533 million), leaving Usable Capital Receipts of £2.656 million (2013/14 was £2.847 million).

	2013/14 £000	2014/15 £000
Sale of Land	507	16
Sale of Council Houses	2,782	3,134
Discount Repaid	0	19
Mortgages Repaid	2	1
Rent to Mortgage	89	47
Total Capital Receipts	3,380	3,217
Payments due to DCLG (Local Government Act 2003)	(533)	(561)
Usable Capital Receipts	2,847	2,656

COLLECTION FUND

The Collection Fund is an agent's statement that shows the transactions of the billing authority in relation to the collection of council tax and non-domestic rates from taxpayers and the distribution of the income to local authorities and the Government. While there is only one Collection Fund, separate statements have been shown for council tax and non-domestic rates due to the additional complexity of non-domestic rates transactions following the introduction of the Retention Scheme in 2013/14.

COLLECTION FUND – COUNCIL TAX

The Council collects council tax for its own spending needs and on behalf of Hampshire County Council, Police and Crime Commissioner for Hampshire, Hampshire Fire and Rescue Authority and local town and parish councils.

2013/14		COUNCIL TAX	2014/15	
£000	£000		£000	£000
	(101,374)	Income		
		Income from Council Tax		(102,829)
		Transfers to / (from) General Fund:		
0		Flood Relief	(37)	
0		Family Annex Relief	(29)	
1	1	Transitional Relief	1	(65)
	<u>(101,373)</u>	Total Income		<u>(102,894)</u>
		Expenditure		
		Precepts:		
70,267		Hampshire County Council	71,179	
10,240		Police and Crime Commissioner for Hampshire	10,579	
4,156		Hampshire Fire And Rescue Authority	4,210	
14,978		New Forest District Council (including town and parish council requirements)	15,380	
	99,641			101,348
		Bad and Doubtful Debts		
151		Write-offs	125	
8	159	Increase / (decrease) in provisions	130	255
		Contributions:		
	876	Previous year's estimated council tax surplus		1,866
	<u>100,676</u>	Total Expenditure		<u>103,469</u>
	<u>(697)</u>	Movement on fund balance		<u>575</u>
(1,142)		Surplus at 1 April		(1,839)
(697)		Movement on fund balance for year		575
	<u>(1,839)</u>	Surplus at 31 March		<u>(1,264)</u>

COLLECTION FUND

COLLECTION FUND – BUSINESS RATES

The Council collects business rates for its own spending needs and on behalf of the Government, Hampshire County Council and Hampshire Fire and Rescue Authority.

2013/14		BUSINESS RATES	2014/15	
£000	£000		£000	£000
		Income		
		Income collectable from Business Ratepayers		
	(62,326)	Current System		(64,930)
	(102)	Old System		(55)
	(1,158)	Transitional Protection Payments		(306)
	<u>(63,586)</u>	Total Income		<u>(65,291)</u>
		Expenditure		
102		Payments to/(from) National Pool (Old System)	(95)	
28,282		Payments to DCLG - Business Rates Retention	30,719	
22,625		New Forest District Council	24,576	
5,091		Hampshire County Council	5,529	
566		Hampshire Fire And Rescue Authority	614	
286		Costs of Collection	286	
0		NFDC - Renewable Energy Schemes	19	
	56,952			61,648
		Bad and Doubtful Debts		
270		Write-offs	379	
53		Increase / (decrease) in provisions	(142)	
7,149		Appeals Provision	3,151	
	7,472			3,388
	<u>64,424</u>	Total Expenditure		<u>65,036</u>
	<u>838</u>	Movement on fund balance		<u>(255)</u>
	0	(Surplus) / Deficit at 1 April		503
	838	Movement on fund balance for year		(255)
	(335)	Government safety net contribution - New Forest District Council		0
	<u>503</u>	(Surplus) / Deficit at 31 March		<u>248</u>

NOTES TO THE COLLECTION FUND

1. GENERAL

Any surplus or deficit in respect of Council Tax at the end of the year is, during the next year distributed between the billing authority and major precepting authorities in proportion to their precepts in the year the surplus or deficit occurred.

Any surplus or deficit in respect of Business Rates at the end of the year is distributed in accordance with the percentage allocations set out in note 5.

2. CALCULATION OF THE TAX BASE

The Council Tax charge for the year is calculated by dividing the Council's budget requirement by the Council's tax base.

The tax base is the number of chargeable dwellings in each valuation band (adjusted for dwellings where discounts apply) converted to an equivalent number of band D dwellings.

New Forest District Council's tax base for tax setting purposes was calculated as follows:

Band	Estimated number of Taxable Properties *	Ratio	Number of Band D Equivalent Properties
Disabled A	18.75	5/9	10.40
A	5,469.83	6/9	3,646.30
B	10,435.75	7/9	8,117.10
C	16,142.33	8/9	14,348.80
D	17,417.95	9/9	17,418.60
E	12,274.97	11/9	15,002.90
F	6,259.23	13/9	9,041.00
G	4,137.82	15/9	6,896.50
H	523.42	18/9	1,046.80
Total	72,680.05		75,528.40
Less: Adjustment for collection rates			825.50
Less: Council Tax Reduction Scheme			6,121.70
Council Tax Base			68,581.20

* after adjusting for the effects of discounts and anticipated changes during the year for new properties, demolitions, disabled persons relief, exempt properties and successful appeals against valuations.

3. ACCOUNTING FOR THE COLLECTION FUND BALANCE – COUNCIL TAX

The opening balance on the Collection Fund for 2014/15 was a £1,839,000 surplus. The surplus at the end of the year is split between Hampshire County Council, New Forest District Council, Police and Crime Commissioner for Hampshire and Hampshire Fire and Rescue Authority.

In the Balance Sheet at 31 March 2015, the Council included the £1,264,000 surplus on a disaggregated basis as a creditor of £1,072,000 and a £192,000 attributable surplus within the Collection Fund Adjustment Account balance.

NOTES TO THE COLLECTION FUND

4. PRECEPTS AND DEMANDS ON THE COLLECTION FUND – COUNCIL TAX

2013/14				2014/15		
Precept	Share of Surplus	Total		Precept	Share of Surplus	Total
£000	£000	£000		£000	£000	£000
70,267	1,297	71,564	Hampshire County Council	71,179	888	72,067
10,240	189	10,429	Police and Crime Commissioner for Hampshire	10,579	131	10,710
4,156	77	4,233	Hampshire Fire and Rescue Authority	4,210	53	4,263
14,978	276	15,254	New Forest District Council (including town and parish council requirements)	15,380	192	15,572
99,641	1,839	101,480		101,348	1,264	102,612

5. INCOME FROM BUSINESS RATEPAYERS

Under the arrangements for business rates, the Council collects non-domestic rates for its area, which are based on local rateable values multiplied by a uniform rate determined by the Government. The total amount, less certain reliefs and other reductions, is paid into the Collection Fund before being distributed to Central Government (50%), New Forest District Council (40%), Hampshire County Council (9%) and Hampshire Fire and Rescue Authority (1%).

The total non-domestic rateable value at 31 March 2015 was £158.238 million. The national non-domestic multiplier was 48.2p. This gave a potential business rate yield of £76.271 million. After allowing for items such as rateable value amendments, empty properties, small property reductions and transitional and charitable reliefs, the net amount of business rates collectable was £64.930 million.

6. ACCOUNTING FOR THE COLLECTION FUND BALANCE – BUSINESS RATES

The 2014/15 year end deficit balance on the Collection Fund was £248,000. Due to safety net implications the Council's share is a surplus of £102,000 and Central Government, Hampshire County Council and Hampshire Fire and Rescue Authority share a deficit balance of £350,000. Within the balance sheet the Council's share is shown within the Collection Fund Adjustment Account balance and the partners share is netted off within creditors.

7. DEMANDS ON THE COLLECTION FUND – BUSINESS RATES

2013/14				2014/15		
Demand	Share of Deficit	Total		Demand	Share of Deficit	Total
£000	£000	£000		£000	£000	£000
28,282	(419)	27,863	Central Government	30,719	(292)	30,427
5,091	(76)	5,015	Hampshire County Council	5,529	(52)	5,477
566	(8)	558	Hampshire Fire and Rescue Authority	614	(6)	608
22,625	(335)	22,290	New Forest District Council	24,576	102	24,678
56,564	(838)	55,726		61,438	(248)	61,190

GLOSSARY OF TERMS

Budget

The Council's plans set out in financial terms. Both revenue and capital budgets are prepared, and are used to control and monitor expenditure and performance.

Capital Expenditure

Expenditure on the purchase of assets, which will be of use or benefit to the Council/Community for longer than one year.

Capital Financing

The raising of money to pay for capital expenditure.

Capital Receipts

Proceeds from the sale of long-term assets e.g. land or buildings.

Direct Revenue Financing

Financing of capital expenditure by a direct charge to a revenue account. This method of finance avoids borrowing.

Financial Reporting Standards (FRS)

Accounting practices recommended by the major accounting bodies.

General Fund

The section of the Council's accounts that covers services paid for by the Council Tax, Non-Domestic Rate and Revenue Support Grant.

Housing Revenue Account

The account, which records all of the income and expenditure relating to the provision of council housing.

Impairment

At the end of each year each asset is reviewed. Impairment is accounted for if there is evidence that there has been a reduction in value.

Lease

A method of financing capital expenditure where a rental charge is paid for the use of an asset over a specified period of time. This rental covers a proportion of the capital cost of the asset, together with a return on the finance provided by the leasing company.

Long- term Assets

An asset that has a life of more than one year.

GLOSSARY OF TERMS

Long-term Investments

Loans that the Council has given that are repayable after 364 days of the start of the financial year.

Money Market Investment

An investment with a maturity date that is more than 364 days from the original investment date. This Category will include loans that are for longer periods than 364 days but can be repaid earlier if the borrower wishes.

PWLB Debt

Borrowing that is raised from the Public Works Loan Board, a UK Central Government organisation.

Revenue Support Grant (RSG)

Grant paid by the Government to local authorities to help them finance the cost of their services. The system is designed so that if all local authorities spend at the level determined by the Government, the council tax would be the same across the country.

Revenue Expenditure/Income

The costs or income relating to the day-to-day provision of services.

Short-term Loans

Loans that the Council has raised that are repayable within 364 days of the start of the financial year.

Support Services

The costs of professional, administrative and technical support given to the departments that provides services to the public.

Temporary Investments

Investments that the Council has made that are repayable within 364 days from the date of the original investment.

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EMT – 8 SEPTEMBER 2015
AUDIT COMMITTEE – 25 SEPTEMBER 2015

ANNUAL GOVERNANCE STATEMENT – 2014/15

1.0 INTRODUCTION

- 1.1 As prescribed by the Account and Audit Regulations 2011, the Council is required to produce an Annual Governance Statement (AGS) following an assessment of its governance framework.
- 1.2 The Leader of the Council and the Head of Paid Services (Chief Executive) are required to sign the AGS and be satisfied that the document is supported by reliable evidence. It is published with the Statement of Accounts.
- 1.3 The draft AGS 2014/15 was approved by Audit Committee in June 2015 and provided to the external auditors for review.

2.0 THE ANNUAL GOVERNANCE STATEMENT (AGS)

- 2.1 Whilst the AGS covers the period 1 April 2014 to 31 March 2015, the document remains open for update until it is approved at the end of September 2015 and can make reference to any significant matter that has arisen.
- 2.2 Internal Audit has not recommended any changes to the draft statement and no changes have been recommended to date by the external auditor.
- 2.3 The statement has been reviewed by the Executive Management team. The final AGS for 2014/15 is attached in Appendix 1.

3. FINANCIAL IMPLICATIONS

- 3.1 There are no financial consequences arising directly from this report.

4. EQUALITIES & DIVERSITY AND ENVIRONMENTAL MATTERS

- 4.1 There are no equalities & diversity or environmental matters associated with this report.

5.0 CRIME & DISORDER IMPLICATIONS

- 5.1 There are no crime and disorder issues arising directly from this report.

6.0 CONCLUSIONS

- 6.1 The Annual Governance Statement reports that the Council has sound levels of internal control and good governance arrangements.
- 6.2 The statement does identify some areas for improvement and these will be managed by the Council's Executive Management Team.

7.0 RECOMMENDATIONS

- 7.1 That the Audit Committee approve the Annual Governance Statement for the Financial Year ended 31 March 2015 as reported in Appendix 1.
- 7.2 That the Leader of the Council and Head of Paid service sign the AGS 2014/15
- 7.3 That the AGS 2014/15 be published on the Councils' website, ensuring ease of access.

For Further Information Contact

Bob Jackson
Executive Director (S151)
Tel: 02380 285588
Bob.jackson@nfdc.gov.uk

Background Papers

New Code of Good Governance – 23/3/08
AGS 13-14 – Audit Committee 20/6/14

**THE ANNUAL GOVERNANCE STATEMENT
NEW FOREST DISTRICT COUNCIL
2014/15**

1. Scope of Responsibility

New Forest District Council is responsible for ensuring that its business is conducted in accordance with the law, proper standards are adhered to and that public money is safeguarded, properly accounted for and used economically, efficiently and effectively. It 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 best value. In discharging this overall responsibility New Forest District Council is required to have in place proper arrangements for the Governance of the Council's affairs, facilitating the effective exercise of its functions and arrangements for the management of risk.

New Forest District Council has approved and adopted a code of good governance, which is consistent with the principles of the CIPFA/SOLACE Framework "Delivering Good Governance in Local Government". A copy of the code can be found on our website: <http://www.newforest.gov.uk/committeedocs/sc/CDR03688.pdf>. This statement explains how New Forest District Council has complied with the code and also meets the requirements of regulation 4 (3) of the Accounts & Audit Regulations 2011 in relation to the publication of a statement of corporate governance.

2. The Purpose of the Governance Framework

The governance framework comprises the systems and processes, and culture and values, by which the authority is directed and controlled and its activities through which it accounts to, engages with and leads the community. It enables the authority to monitor the achievements of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost effective service.

The system of internal control is a significant part of that framework and is designed to manage risk to 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 ongoing 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 materialising and the impact should they be realised, and to manage them efficiently, effectively and economically.

The governance framework has been in place at New Forest District Council for the year ended 31 March 2015.

3. The Governance Framework

The Local Code of Corporate Governance describes the Council's governance framework in relation to the six core principles below. A review of compliance against this Local Code has been reported separately, with opportunities for improvement recorded within a separate action plan.

1. Focusing on the purpose of the Authority and on outcomes for the community and creating and implementing a vision for the local area;
2. Members and Officers working together to achieve a common purpose with clearly defined functions and roles;
3. Promoting values for the Authority and demonstrating the values of good governance through upholding high standards of conduct and behaviour;
4. Taking informed and transparent decisions, which are subject to effective scrutiny and managing risk;

5. Developing the capacity and capability of members and officers to be effective; and
6. Engaging with local people and other stakeholders to ensure robust public accountability.

The Council aims to deliver high quality services that provide value for money and which are aligned to the needs and priorities of the local community. The Council's overarching vision, values and strategy for the year 2014/15 is contained in the Corporate Plan "Delivering for our Communities" which sets out what the Council aims to achieve for the period 2012 - 2016. <http://www.newforest.gov.uk/index.cfm?articleid=12103>. This plan includes a dedicated aim in relation to governance; "Maintaining strong Governance" as well as new values.

The Council has in place service action plans to deliver each of the aims of the Corporate Plan, for which responsibility is with the Heads of Service to deliver with their teams. The Executive Management Team oversees the performance and progress made against each plan.

The quality of service delivery is checked with users through regular consultation initiatives. Outputs from consultation are used to inform future service delivery.

The Council has Medium Term Financial Plan (MTFP) which sets out the Council's spending plans by each Portfolio, on a rolling basis.

The Council has also developed over the years a number of successful joint or collaborative working arrangements with the public and other agencies. This has continued into 2014/15, for example, with the New Forest National Park Authority (with regards to financial services, IT services, HR and Payroll, shared accommodation and processing of Tree Perseveration Orders) continued joint working and assets sharing arrangements at the Ringwood Gateway (which includes Hampshire County Council and Ringwood Town Council) and continued management arrangements for Internal Audit within four Dorset Councils.

The Council's Constitution sets out how the Council operates, including the roles, responsibilities and relationships between Council, the Executive (Cabinet), Audit Committee and other bodies such as the Overview and Scrutiny Panels and Officers (Delegations) in respect of policy and decision-making processes. The Constitution also sets out details on Codes of Conduct and key policies such as Financial Regulations and Contract Standing Orders as to Contracts. It is important that the Council operates efficiently and transparently and is accountable to the local people.

The Constitution is reviewed and updated where opportunities for improvement are identified.

The Risk Management Framework is in place to ensure that risks to the Council in achieving its strategic objectives, both at a corporate and service level, are more consciously identified, assessed and managed. It aligns risk with existing arrangements, in particular the performance management framework with an assessment of risk forming part of the Service Planning processes.

During 2014, CPFA and the International Federation of Accountants (IFAC) published the International Framework: Good Governance in the Public Sector. This framework details seven core principles. The Council has not updated its framework during the year but it has had regard to the International Framework when conducting its review. The Seven principles are set out in the diagram below:

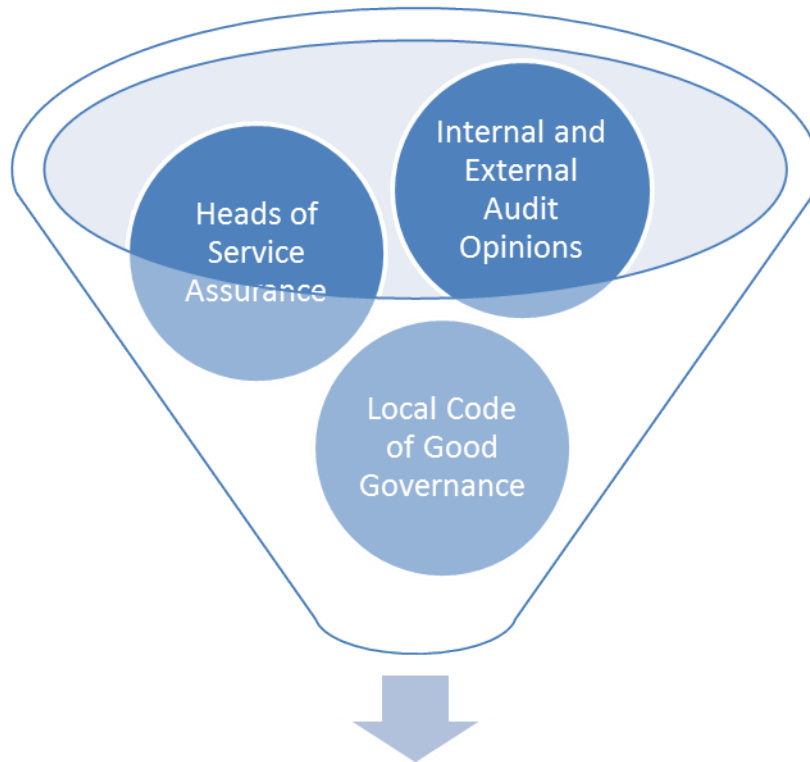
The diagram below illustrates the seven core principles contained within the International Framework.



4. Review of Effectiveness

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

Governance Framework – Key Sources of Information



Annual Governance Statement

The Council has undertaken a mid year review of its governance arrangements/agreed actions as well as a year end review. The importance of maintaining strong governance arrangements is evidenced by a dedicated corporate aim. This aim and its achievements are recorded on the Council's website.

This Council has always maintained a strong internal control environment. It has long established principles on the way its business is conducted enabling good governance and control of risk. Factors that influence the control environment include; integrity, ethics, operating style and the way management and members assign responsibility and authority.

The review concluded;

1. The Constitution and other Council Policies were reviewed and improvements approved including;
 - Procurement Strategy and Policy (Contract Procedure Rules)
 - Treasury Management Strategy
 - Employee Code of Conduct
2. The Council's arrangements for financial management and reporting are sound and are well documented. All proposals for expenditure and income are supported by a business case that includes links to the Corporate Plans; these are scrutinised initially by the service Portfolio Holder prior to inclusion as a formal bid to Cabinet and the Council. The planning process also includes a review of proposals by the relevant Overview and Scrutiny Panels, before final proposals and the council tax levels are considered and approved by the Council each year.
3. Financial monitoring is achieved by regular budgetary control reports to nominated budget holders, Executive Management Team, the relevant Portfolio Holder, and the Cabinet. All

elected Members have access to Cabinet Agendas and the financial reports; a process is in place to enable members to request additional, more detailed information and question any financial issues. Strong Overview and Scrutiny arrangements in place with an annual report published to Cabinet.

4. The Council's banking arrangements were tendered during the year with a number of other Local Councils. The tender process was successful resulting in an agreed new provider. The project implementation has been sound with little disruption to the public. All old accounts with the previous provider have been closed.
5. In line with the continuous improvement culture of the Council, it is recognised that all Members and Officers of the Council must have the skills, knowledge and capacity that they need to discharge their responsibilities effectively. Member training will be in place to induct any new members following the elections in May 2015.
6. An Executive Director has Section 151 responsibilities (Chief Finance Officer). The Head of Legal and Democratic Services is the Monitoring Officer. All committee reports are reviewed by members of the Executive Management Team, which includes the Executive Directors as well as being provided to the Head of Legal and Democratic, prior to any decisions being made. This safeguards the Council to ensure legal decisions are taken and that decisions consider the Councils' corporate priorities and risks.
7. The Council's financial management arrangements conform to the governance requirements of the CIPFA Statement on the Role of the Chief Financial Officer in Local Government (2010).
8. The Performance Management framework ensures strategic monitoring with a focus on national indicators and the achievement of both the *Corporate and Portfolio Plans*. Performance indicators are reviewed during the year.
9. The Audit Committee met regularly and received training. The Committee has both a forward plan and will have a training plan in place for new members to ensure they are clear in their responsibilities in providing an independent assurance to the Council in relation to the effectiveness of the Council's internal control environment. In accordance with Regulation 6 of the Accounts and Audit (England) Regulations 2011. The Assurance Framework was reviewed and approved during the year. The Committee also reviews the effectiveness of the Councils' system of Internal Control and receive a statement of conformance against the Public Sector Internal Audit Standards.
10. Internal Audit forms part of the internal control framework. It is a mandatory function whose primary aim is to ensure that the Executive Director's responsibilities, to maintain proper control over the Council's financial affairs as defined by Section 151 of the Local Government Act 1972, are fully met. The Audit Committee has reviewed and approved the risk based audit plan and progress reports against the audit plan throughout the year. This risk based audit plan was also approved by the Section 151 Officer following consultation with the Heads of Service. The Committee has also received reports and updates from the External Auditor.
11. The Internal Audit team operates to the Standards as set out in the Public Sector Internal Audit Standards. Internal Auditors are trained and have acted independently, objectively and ethically at all times. The Internal Audit Charter was approved during the year. The improvements arising from the conformance against the standards were also reviewed during the year by Audit Committee.
12. Internal Audit Managers' annual opinion report, concluded that whilst Internal Audit are unable to give absolute assurance, the results of the reviews completed during the year have resulted in an overall opinion that;
 - Arrangements are in place to ensure there is an adequate and effective framework of governance, risk management and control in place

- Systems and internal control arrangements continue to be effective and agreed policies and regulations have been complied with in the majority cases. There have been weaknesses identified during the year; however recommendations have been made to address these with progress of their implementation monitored. Internal Audit is content that management are implementing the required actions to strengthen controls. These actions have been taken into account whilst forming the overall opinion. Where delay of high priority audit recommendation implementation is identified these are reported regularly to Audit Committee.
- Managers are therefore aware of the importance of maintaining internal controls and accept recommendations made by Internal Audit to improve controls
- Arrangements are in place to deter and detect fraud however these need to be improved. Recommendations surrounding this are recommended for inclusion within the Annual Governance Statement Action Plan.

This Opinion report, presented to the Executive Management Team and Audit Committee further comments on the control environment against the agreed Assurance Framework.

13. Ernst & Young acts as the Council's independent external auditor. The Section 151 Officer and Chair of Audit Committee have responded openly to the External Auditor under the requirements of the International Auditing Standards.
14. Heads of Service have been asked to report any significant governance or internal control issues. No significant issues were raised.
15. All organisations, worldwide face increasing cyber related threats. The Council maintains sound standards and continually reviews opportunities to further strengthen these. ICT and Internal Audit are working together to develop an updated Cyber Security policy within the Councils ICT Security Policy.
16. Internal Audit has reported an adequate opinion on the overall control environment, however the following audit areas have received high priority recommendations that have not been resolved promptly; Payment Card Industry Data Security Standard Accreditation and Asset Management.

5. Significant Governance Issues

Whilst there have been a number of improvements made throughout the year, the Council constantly strives for continuous improvement. In our conclusion we consider that governance issues can be grouped by;

- i) Elements of the governance framework for which the compliance assessment has identified that some improvement is necessary to provide full assurance;
- ii) Issues that the governance framework has identified and which require action in future to meet stakeholder expectations.

Under the first element there are no areas where the Council is not compliant but judgement is made that these areas have partial compliance and improvements should be made;

1. Completion of the Financial Regulations review
2. Implementation of uncompleted high priority audit recommendations
3. Improvements to Counter Fraud arrangements

The second element considers elements from the new Administration's manifesto.

Action, as detailed in the attached plan will be subject to biannual review by the Executive Management Team and Audit Committee.

6. CERTIFICATION

To the best of our knowledge, governance arrangements, as defined above, have been in place at New Forest District Council for the year ended 31st March 2015 and up to the date of approval of the annual report and statement of accounts.

We propose to take steps over the coming year to address those areas identified above to further enhance our governance arrangement. We are satisfied that these steps will address the need for improvements that were identified during the 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

Date: *Date:*

Annual Governance Statement 2014/15 Action Plan

Topic	Action	Responsible Officer(s)	Deadline
Financial Regulations	To review and update Financial Regulations.	Executive Director (S151) in consultation with the Head of Legal and Democratic Services	31.3.16
Uncompleted high priority audit recommendations	To action uncompleted audit recommendations	Head of Service	30.9.15
Counter Fraud	To complete the self assessment against the CIPFA Counter Fraud Code of Practice and implement actions arising	Executive Director (S151) with Internal Audit Manager	31.3.16

New Forest District Council
Appletree Court
Beaulieu Road
Lyndhurst
Hampshire
SO43 7PA

My Ref: RJ/db/Letters
Your Ref:

Date: 25 September 2015

Helen Thompson
Director
Ernst & Young LLP
Wessex House
19 Threefield Lane
Southampton
SO14 3QB

Dear Helen

This representation letter is provided in connection with your audit of the financial statements of New Forest District Council (“the Council”) for the year ended 31 March 2015. We recognise that obtaining representations from us concerning the information contained in this letter is a significant procedure in enabling you to form an opinion as to whether the financial statements give a true and fair view of the financial position of New Forest District Council as of 31 March 2015 and of its expenditure and income for the year then ended in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15.

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 (England) 2011 and CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15.

2. We acknowledge 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 and of its expenditure and income of the Council in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15 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. 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 2014/15 that are free from material misstatement, whether due to fraud or error.

5. There are no unadjusted audit differences identified during the current audit and pertaining to the latest period presented.

B. Fraud

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

2. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

3. We have no knowledge of any fraud or suspected fraud involving management or other employees who have a significant role in the Council's internal controls over financial reporting. In addition, we have no knowledge of any fraud or suspected fraud involving other employees in which the fraud could have a material effect on the financial statements. We have no knowledge of any allegations of financial improprieties, including fraud or suspected fraud, (regardless of the source or form and including without limitation, any allegations by "whistleblowers") which could result in a misstatement of the financial statements or otherwise affect the financial reporting of the Council.

C. Compliance with Laws and Regulations

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

D. Information Provided and Completeness of Information and Transactions

1. We have provided you with:

- Access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters as agreed in terms of the audit engagement.
- 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 if 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 the Audit Committee.

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 have disclosed to you, and the Council has complied with, all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance, including all covenants, conditions or other requirements of all outstanding debt.

E. Liabilities and Contingencies

1. All liabilities and contingencies, including those associated with guarantees, whether written or oral, have been disclosed to you and are appropriately reflected in the financial statements.

2. We have informed you of all outstanding and possible litigation and claims, whether or not they have been discussed with legal counsel.

3. We have recorded and/or disclosed, as appropriate, all liabilities related litigation and claims, both actual and contingent, and have disclosed in Notes 41 and 48 to the financial statements all guarantees that we have given to third parties.

F. Subsequent Events

1. There have been no events subsequent to period end which require adjustment of or disclosure in the financial statements or notes thereto.

G. Accounting Estimates

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

2. Accounting estimates recognised or disclosed in the financial statements:

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

H. 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.

Use of the Work of an Expert

1. We agree with the findings of the experts engaged to evaluate the Local Government Pension Fund balances and have adequately considered the qualifications of the experts 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 experts 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 experts.

Yours faithfully,

Mr R.Jackson
Responsible Financial (S151) Officer
New Forest District Council

I confirm that this letter has been discussed and agreed at the New Forest District Council on 25th September 2015.

Cllr A.O'Sullivan
Chairman of the Audit Committee
New Forest District Council

EMT – 8 SEPTEMBER 2015
AUDIT COMMITTEE – 25 SEPTEMBER 2015

PROGRESS AGAINST THE 2015/16 AUDIT PLAN

1. INTRODUCTION

- 1.1 The purpose of this report is to inform members of the Audit Committee of progress made against the 2015/16 audit plan, which was approved in March 2015.

2. RESOURCES

- 2.1 Appendix 1 shows the current structure of the Internal Audit Partnership following the departure of the Lucinda Upton (Internal Audit Partnership Manager).
- 2.2 The number of Management days provided by NFDC to the other Authorities has been reduced and each Authority now has a Senior Auditor that will take on more management responsibility. Previously NFDC had a Service level Agreement (SLA) with Christchurch and East Dorset Partnership which included the provision of Audit Management days to Purbeck District Council. Under the new arrangements NFDC now has a direct SLA with Purbeck District Council.
- 2.3 At present NFDC is undertaking a recruitment exercise for the vacant Auditor post, this vacancy is a result of successful recruitment to the Senior Auditor post. The Auditor post should be filled during October 2015. Following the resignation of the Audit Assistant a business case has been approved to recruit an Audit Apprentice to replace the previous Audit Assistant post. The aim is to have this position filled during November.

2. INTERNAL AUDIT PLAN 2015/16 PROGRESS

- 2.1 Appendix 2 shows the progress made against the 2015/16 internal audit plan to 28th August 2015. Progress is demonstrated by recording the current status of each audit assignment, the audit opinion and a summary of the number of recommendations made.
- 2.2 The internal audit plan is timetabled to ensure the audit assignment can be undertaken at the most effective time. Appendix 2 shows the audits planned for each quarter of the year. Due to changes within the audit team and also the recruitment of team members 3 Audits will now be completed in Q3 instead of Q2. These audits are Benefits, Development Control and Housing Development. The timing of the Payroll and Main Accounting Audits have been changed slightly as these will be completed by the Senior Auditor from Purbeck District Council.
- 2.3 The plan is on schedule. The majority of work undertaken in the first five months includes;
- Assurance and risk based service areas
 - Procurement Service Review
 - Real time exception testing (creditors)
 - NNDR System migration
 - Attendance at projects including Affordable Housing and implementation of new Procurement Legislation
 - Follow up of audit recommendations
 - Work with third parties including the External Auditor's Subsidy testing, Town Councils audits.
 - Fraud risk register review
- 2.4 An amendment to the Audit plan has been made for the current year due to the Procurement Service review. The Principal Auditor is a member of the Project team undertaking the Service review and it is felt that the Audits allocated in the Audit Plan would duplicate some areas of work that will be covered as part of the review. The details of this amendment can be seen in appendix 3.

- 2.5 There are no frauds that need to be brought to your attention at this time. Two Officers within the Internal Audit team have recently undertaken Authorised Officer training, this enables enquiries with employers and financial institutions to be undertaken when investigating fraud in respect of Tenancy Fraud and Council Tax reduction scheme fraud. Previously Officers were Authorised under the Social Security Fraud Act however due to benefit fraud investigations moving to the DWP this Council could no longer use this route for enquires.

PROGRESS ON HIGH PRIORITY RECOMMENDATION

- 2.7 Internal Audit monitors progress made against agreed audit recommendations. Currently high priority recommendations outstanding include;

- Payment Card Industry Data Security Standards (PCI DSS) compliance
Action being taken: ICT Security procured a Qualified Assessor to support the Council in achieving its PCI DSS compliance. Following the assessment an action plan has been developed. Internal Audit will work with ICT Security to implement the action plan.
- Building Control
It was recommended that the service reconcile the income recorded on the building control system to the general ledger to ensure all income is accurately posted.
Action: The service is requesting assistance from ICT to provide system reports to help facilitate the process. This area has been audited during 15/16 and no further action has been taken. Further action in this area will be agreed as part of the 15/16 audit action plan meeting.

3. FINANCIAL IMPLICATIONS & CRIME AND DISORDER IMPLICATIONS

- 3.1 There are no direct financial implications arising from this report, however inadequate audit coverage may result in areas of control weakness, unacceptable risks or governance failings as well as the increased potential for fraud and error.

4. ENVIRONMENTAL MATTERS & EQUALITY AND DIVERSITY IMPLICATIONS

- 4.1 There are no matters arising directly from this report.

5. RECOMMENDATION

- 5.1 The Audit Committee note the content of the report and raise any further areas of assurance coverage that they require.

For Further Information Please Contact:

Glenda Chambers
Principal Auditor
Tel: (023) 8028 5588
E-mail: glenda.chambers@nfdc.gov.uk

Background Papers:

Internal Audit Plan 2015/16
Audit Committee – June 2015

EXECUTIVE DIRECTOR (S151)
Bob Jackson

PRINCIPAL AUDITOR/AUDIT PARTNERSHIP MANAGER
Glenda Chambers

SENIOR AUDITOR/VFM (PDC)
Chris Nicholls

SENIOR AUDITOR (NFDC)
Naomi Kitcher

SENIOR AUDITOR (CED)
Alexandra Thomas

AUDITOR (PDC)
Tracey Mead

AUDITOR
Vacant

AUDITOR IT
(Dorset-wide)
Darren Clarke

AUDITOR (CED)
Cathy Groeger

AUDITOR
Karen Ross (18.5)

AUDITOR
Nicola
Message(18.5)

AUDIT APPRENTICE
Vacant

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Audit Area	Est Days	Q1	Q2	Q3	Q4	Assurance Level	No. of High Priority	No. of Medium Priority	No. of Low Priority	No. of VFM
Main Financial Audits										
Benefits	15									
Income	15		WIP							
Accounts Payable	10									
Accounts Receivable	10									
Asset Management	10									
Landlord services (rents)	10									
Business Rates	15									
Council Tax	10									
Payroll (inc NFNPA testing) (Inc T&S, Members Allowances & Expenses)	25									
Treasury Management	2									
Main Accounting System inc bank reconciliation	15									
IT Audit										
IT Audit (Inventory/Purchases/Contracts/Maintenance/Licences etc)	15		Draft							
IT Audit (PSN/Security/DR) Network and Other systems	20									
Governance										
Governance and corporate risks inc new standards	15	Completed								
Information Governance	15		Draft							
Assurance/Risk Based Service Areas										
The Design Room	10	Completed				Reasonable	0	2	1	3
Estates Management	15	Draft								
Clinical Waste	10	Draft								
Customer Access - Contact Centre/Helpdesk/Support Service	10	Completed				Reasonable	0	3	3	9
Building Control	15	Draft								
Landscape and Open Space	10									
Coastal & Regional Monitoring	10									
Licensing	15									
Development Control (inc planning enforcement and appeals)	15									
Housing Development inc Affordable Housing, Private Sector Leasing & Empty Properties	15									
Community Grants/Ward Budgets/Other Grants	15		WIP							
Health and Safety	15									
Environmental Health - Pollution	15									
Electoral Services	15									
Estates and Valuation	10									

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Appendix 3

Internal Audit Plan 2015/16	
Audit Class and Titles	Allocated Time (Days)
Main Financial Audits	
Main Accounting System inc bank reconciliation	15
Treasury Management	2
Accounts Payable	10
Accounts Receivable	10
Income	15
Payroll (inc NFNPA testing) (Inc T&S, Members Allowances & Expenses)	25
Council Tax	10
National Non Domestic Rates	15
Benefits & Fraud Investigation	15
Landlord services (Rent Accounting)	10
Asset Management	10
IT Audit	
IT Audit (PSN/Security/DR) Network and Other systems	20
IT Audit (Inventory/Purchases/Contracts/Maintenance/Licences etc)	15
Contract Audit	
Procurement Strategy and Corporate Process and Waivers	reduce to 10 days 30
Procurement - Contract Management audit	15
Procurement - Contract Payments and Financial Assessments	30
Governance	
Information Governance (DPA/FOI/Performance/Data Quality/Transparency/Retention & Disposal/Information Assets)	15
Governance and corporate risks inc new standards	15
Compliance	
Health and Leisure Income Returns	10
Car Park Income Reconciliaiton	4
Keyhaven Income Returns	2
Creditors exception testing	20
Stock takes, cash ups & Petty cash	10
Other Services	
Estates and Valuation	10
Central Purchasing/Stores	15
Development Control (inc planning enforcement and appeals)	15
Housing Development inc Affordable Housing & Private Sector Leasing & Empty Properties	15
Building Control	15
Estates Management	15
Health and Safety	15
Environment Health - Pollution	15
Licensing	15
Community Grants/Ward Budgets/Other Grants	15
The Design Room	10
Electoral Services	15

Coastal & Regional Monitoring	10
Clinical Waste	10
Landscape and Open Space	10
Customer Access - Contact Centre/Helpdesk/Support Service etc	10
Fraud	
Counter Fraud; Policy review, training, prevention work, NFI overview, general monitoring tools	20
Counter Fraud Work inc NFI and Analytics (separate action plan being developed)	30
Counter Fraud Investigation	20
Consultancy/VFM	
S151 Requests and Contingency	30
H&L Queries	10
Projects/Consultancy work/VFM	50
Advisory (Financial Regulations)	50
Work with Partners	
Benefit Subsidy (for external audit)	45
Leader (on third party behalf)	2
Safeguarding reviews	10
Total NFDC Audit Days	800
Management and Training	282
Audit Management (inc Performance Management, Planning, Supervision/signing off of audits, Meeting and Committee attendance, annual reporting, liaison with external audit etc.) and Team training and development, office routine, meetings and Contingency	
Fee Earning	236
Fee Earning Third Party Work (NFNPA/Dorset/T&P Councils)	
Total Resource Days	1318

AUDIT COMMITTEE 25 SEPTEMBER 2015

TREASURY MANAGEMENT MID-YEAR MONITORING REPORT 2015/16

1. PURPOSE

- 1.1. The Treasury Management Strategy for 2015/16 is underpinned by the adoption of the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management 2011, which includes the requirement for determining a treasury strategy on the likely financing and investment activity for the forthcoming financial year.
- 1.2. The Code also recommends that members are informed of Treasury Management activities at least twice a year (a mid year and a year end report). This report therefore ensures that New Forest District Council (NFDC) are embracing best practice in accordance with CIPFA's recommendations.
- 1.3. Treasury management is defined as: "The management of investments and cash flows, banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."

2. ECONOMIC BACKGROUND

- 2.1. The following Section outlines the key economic themes currently in the UK against which investment and borrowing decisions have been made in the year to date.
- 2.2. Growth – positive growth in the UK economy has continued with output growing at a preliminary estimate of 2.6% year-on-year in Q2 2015, which was in line with the market's expectations. The largest contribution to growth came from services – increasing by 0.7% and contributing 0.5% to overall growth.
- 2.3. The latest figures released by the Office for National Statistics for June 2015 show a broadly stable UK labour market, with marginal movements in the number of employed (down to 73.4% from 73.5%) and the number of unemployed (up to 5.8% from 5.7%). Wage growth was 2.8% excluding bonuses over the three months to June 2015 year-on-year.
- 2.4. The Consumer Prices Index (CPI) rose by 0.1% in the year to July 2015, up from 0.0% in June. This was slightly above market expectations, which had predicted inflation remaining at 0.0%. As set out in the Governor of the Bank of England's letter to the Chancellor, around three quarters of the weakness in headline inflation relative to the 2% target reflects unusually low contributions from energy, food and other imported goods prices. The remaining part of the undershoot is judged to reflect relatively weak domestic cost growth, given a continuing, but declining, drag from spare capacity in the labour market.

- 2.5. UK Monetary Policy: at its meeting ending on 9 September 2015, the Monetary Policy Committee (MPC) voted by a majority of 8-1 to maintain Bank Rate at 0.5%. Interestingly this is the second meeting running that the vote to hold rates at 0.5% has not been unanimous, perhaps indicating that the first rise in interest rates is approaching.
- 2.6. The MPC has previously emphasised that when the Bank Rate does begin to rise, it is expected to do so only gradually and to remain below average historical levels for some time to come. The treasury management advisers to NFDC, Arlingclose, now estimate the first rise in interest rates will be in the second quarter of 2016, which is still later than many economic commentators. Arlingclose's expectation is that the appropriate level for Bank Rate for the post-crisis UK economy will be lower than the previous norm, between 2.0 and 3.0%.

3. BORROWING STRATEGY

- 3.1. At 31/08/2015 NFDC held £144.5m of loans, (unchanged from 31/03/2015) including HRA and non-HRA. NFDC does not expect to borrow in 2015/16.
- 3.2. NFDC's chief objective when borrowing continues to be striking an appropriately low risk balance between securing low interest costs and achieving cost certainty over the period for which funds are required, with flexibility to renegotiate loans should NFDC's long-term plans change being a secondary objective,
- 3.3. Affordability and the "cost of carry" remained important influences on the Council's borrowing strategy alongside the consideration that, for any borrowing undertaken ahead of need, the proceeds would have to be invested in the money markets at rates of interest significantly lower than the cost of borrowing. As short-term interest rates have remained, and are likely to remain, lower than long-term rates, NFDC determined it was more cost effective in the short-term to use internal resources instead.
- 3.4. As at 31 August 2015 NFDC had a total of £144.5m of long term loans, made up of a number of Public Works Loan Board (PWLB) loans at a weighted average fixed interest rate of 3.12%, and average outstanding term remaining of 22.8 years. This average rate is below the rate currently being offered for a similar timescale and therefore when viewed against historic interest rates the debt portfolio represents good mitigation against the long-term risk of exposure to interest rate fluctuations, which could increase the cost of borrowing.
- 3.5. The premia that applies to the premature repayment of PWLB loans is still relatively expensive for the loans in NFDC's portfolio and therefore unattractive for debt rescheduling. As a consequence no rescheduling activity has taken place. However, consideration will continue to be given to any advantageous opportunity for NFDC to reduce or restructure its debt portfolio.

4. INVESTMENT ACTIVITY

- 4.1. NFDC hold invested funds representing income received in advance of expenditure plus balances and reserves held.
- 4.2. The Guidance on Local Government Investments in England gives priority to security and liquidity and NFDC's aim is to achieve a yield commensurate with these principles.
- 4.3. The transposition of European Union directives into UK legislation now places the burden of rescuing failing EU banks disproportionately onto unsecured local authority investors through potential bail-in of unsecured bank deposits.
- 4.4. Given the increasing risk and continued low returns from short-term unsecured bank investments, it is NFDC's aim to further diversify into more secure and/or higher yielding asset classes during 2015/16. The majority of NFDC's surplus cash was previously invested in the short-term unsecured bank deposits, certificates of deposit and money market funds. This diversification into securities with underlying collateral and investments with organisations which are not subject to bail-in represents a substantial change in strategy this year.
- 4.5. During 2014/15 NFDC invested £2.0m in a pooled property fund, and at the beginning of this financial year invested £1.05m in a second pooled property fund (which is considered to be a capital investment in accounting terms). These investments are aimed for the long-term and provide a regular dividend income, and so far, in the very short term, have proved to be a good investment for NFDC to make.
- 4.6. In order to access additional investments that can attract higher returns than cash and make use of NFDC's stable core balances, NFDC are considering further investments of up to a further £4m in long-term pooled funds, including pooled equity funds, which are also considered to be capital investments (bringing the total to £5m capital spend).
- 4.7. NFDC's investment holding was £65.0m at 31 August 2015, which is £10.4m higher than the same time last year, and was placed with the following counterparties:

Table 1: Investment Activity as at 31 August 2015

Duration to maturity	Overnight £m	< 1 year £m	> 1 year £m	Total £m
<i>Subject to bail-in risk</i>				
Bank call accounts	0.6			0.6
Bank fixed deposits		1.0		1.0
Bank certificates of deposit*		19.0		19.0
	0.6	20.0	0.0	20.6
<i>Exempt from bail-in risk</i>				
Covered floating rate notes		2.5	2.0	4.5
Floating rate notes			1.0	1.0
Covered bonds		1.0	4.0	5.0
Corporate bonds		9.9		9.9
Money market funds	11.0			11.0
Local authorities		4.0	6.0	10.0
Pooled property fund			3.1	3.1
	11.0	17.4	16.1	44.5
Total	11.6	37.4	16.1	65.1

*certificates of deposit have fixed terms but have greater liquidity as they can be sold on the secondary market.

- 4.8. Security of capital has remained NFDC's main investment objective. This has been maintained by following NFDC's counterparty policy as set out in its Treasury Management Strategy Statement for 2015/16.
- 4.9. Counterparty credit quality was assessed and monitored with reference to credit ratings (NFDC's minimum long-term counterparty rating for institutions defined as having 'high credit quality' is BBB+ across rating agencies Fitch, S&P and Moody's); credit default swap prices, financial statements, information on potential government support and reports in the quality financial press.
- 4.10. The average cash balances were £64.6m during the year to 31 August 2015. The average interest rate earned on NFDC's investments at 31 August 2015 was 0.97%, which should be considered within the context of an unchanged UK Base Rate of 0.5% since March 2009 and very low short-term money market rates.
- 4.11. The new treasury management strategy limits came into effect on 1 April 2015. In advance of this Hampshire County Council (HCC) were managing NFDC's investments to prepare for the implementation of the limits in the new strategy. Unfortunately there was one call account that was in breach of the new limits on 1 April 2015, which was identified on the day as part of HCC's normal controls but too late to be able to move the funds to comply with the strategy.
- 4.12. As this was a call account HCC was able to rectify the situation the following day but it does mean that there was a small non-compliance with the new strategy. There was no financial impact for NFDC as a result. HCC have reviewed this to identify what caused this issue and

how HCC's controls can be improved to ensure that this does not happen again.

5. COMPLIANCE WITH PRUDENTIAL INDICATORS

- 5.1. NFDC confirms compliance with its Prudential Indicators for 2015/16, which were set in February 2015 as part of the Council's Medium Term Financial Plan 2014 to 2018, and Budget & Council Tax Report 2015-2016.

Authorised limit for external debt

- 5.2. CIPFA's Code of Practice require authorities to set an authorised limit for external debt, defined as the sum of external borrowing and other long-term liabilities. The annual strategy report agreed by Council on 19 February 2015 set an authorised limit for external debt of £178.4m.
- 5.3. This limit is based on the estimated CFR in order to enable it to be financed entirely from external borrowing should NFDC's internal reserves become depleted. This limit also includes an allowance for temporary borrowing to cover normal cash flow requirements and unexpected outflows or delays in receiving cash.
- 5.4. During the period to 31 August 2015 remained well within the authorised limit of £178.4m and no new long term borrowing has been taken out. There has been no temporary borrowing, other than cash overdraft of £1.0m, so the maximum total external debt in the period has remained at £146.5m.

Operational boundary for external debt

- 5.5. NFDC has set an operational boundary for external debt reflecting the more likely scenario and consistent with NFDC's capital plans and Treasury Management Strategy. Temporary breaches of the 2015/16 operational boundary can take place for cash flow reasons, but any sustained breach will lead to further investigation. The Council approved an operational boundary for 2015/16 of £163.4m.
- 5.6. As outlined above NFDC's maximum total external debt of £145.5m in the period from April to August 2015 was within the operational boundary.

6. TREASURY MANAGEMENT INDICATORS

- 6.1. NFDC measures and manages its exposures to treasury management risks using the following indicators.

Interest Rate Exposures

- 6.2. NFDC has to set an upper limit on its fixed and variable interest rate exposure for both total investments and total external debt. The Council

has approved the following limits, none of which have been exceeded as follows:

Table 2: Interest Rate Exposures	Approved Limits for 2015/16	Maximum during April – August 2015/16	Compliance with Limits:
Upper limit on fixed interest rate investment exposure	£20.0m	£8.0m	Yes
Upper limit on variable interest rate investment exposure	£80.0m	£69.9m	Yes
Upper limit on fixed interest rate borrowing exposure	£163.4m	£145.5m	Yes
Upper limit on variable interest rate borrowing exposure	£163.4m	£1.0m	Yes

6.3. The limit for borrowing rate exposure has been set to enable maximum policy flexibility for the potential for refinancing e.g. from variable to fixed rate borrowing. NFDC's long-term debt portfolio is currently made up of fixed interest loans.

6.4. The upper limit for exposure for investments rates is based on an extreme case for the total investment balances, and to allow for all of this to be held at variable rate (investments with a maturity of less than one year) if necessary.

Maturity Structure of Borrowing

6.5. The Code also requires NFDC to set upper and lower percentage limits on the maturity structure of its long-term fixed rate borrowing during 2015/16. The following table shows the limits approved by the Council. These have been set in order to allow maximum flexibility in managing the debt portfolio and are consistent with the existing portfolio.

Table 3: Maturity Structure of Borrowing	Upper	Lower	Actual
Under 12 months	25%	0%	0%
12 months and within 24 months	25%	0%	0%
24 months and within 5 years	25%	0%	9%
5 years and within 10 years	25%	0%	15%
10 years and above	100%	0%	76%

Principal Sums Invested for Periods Longer than 364 days

6.6. For 2015/16 NFDC restricted investments for periods of over a year to a maximum of £20.0m. At 31 August 2015 NFDC had £16.0m of investments with over 364 days to their maturity.

7. CHANGES TO THE 2015/16 TREASURY MANAGEMENT STRATEGY

- 7.1. Over the 18 months that Hampshire County Council has managed NFDC's Treasury Management function, NFDC's investment balances have risen significantly from £46m to over £75m at its highest point this financial year, and the diversification of those balances has been managed between initially eight counterparties which has now grown to 36 counterparties.
- 7.2. Investment balances are higher than predicted when the current Treasury Management Strategy was approved. Current forecasts show that investment balances could peak at £89m. In order to create greater diversification and provide more flexibility it would be helpful to make some changes to the 2015/16 Treasury Management Strategy.

Investment Limits

- 7.3. Increasing the investment and counterparty limits will increase the flexibility, which is required to a greater extent now that cash balances are greater.
- 7.4. As approved in the 2015/16 Treasury Management Strategy, a group of banks under the same ownership will be treated as a single organisation for limit purposes. Maximum limits will also be placed on fund managers and industry sectors as below:

Table 4: Investment Limits	Cash Limit	
	Current	Revised
Any single organisation, except the UK Central Government	£5m each	£8m each
UK Central Government	Unlimited	Unlimited
Any group of organisations under the same ownership	£5m per group	£8m per group
Any group of pooled funds under the same management	£5m per manager	£8m per manager
Registered Providers	£6m in total	£6m in total
Money Market Funds	50% in total	50% in total

- 7.5. NFDC may invest its surplus funds with any of the counterparty types in Table 5, subject to the cash limits (per counterparty) and the time limits shown.

Table 5: Approved Investment Counterparties and Limits					
Credit Rating	Banks Unsecured	Banks Secured	Government	Corporates	Registered Providers
UK Govt	n/a	n/a	£ Unlimited 4 years	n/a	n/a
AAA	£4m 4 years	£8m 4 years	£8m 4 years	£4m 4 years	£4m 4 years
AA+	£4m 4 years	£8m 4 years	£8m 4 years	£4m 4 years	£4m 4 years
AA	£4m 4 years	£8m 4 years	£8m 4 years	£4m 4 years	£4m 4 years
AA-	£4m 3 years	£8m 4 years	£8m 4 years	£4m 4 years	£4m 4 years
A+	£4m 2 years	£8m 3 years	£4m 4 years	£4m 3 years	£4m 4 years
A	£4m 13 months	£8m 2 years	£4m 4 years	£4m 2 years	£4m 4 years
A-	£4m 6 months	£8m 13 months	£4m 4 years	£4m 13 months	£4m 4 years
BBB+	£2m 100 days	£4m 6 months	£2m 2 years	£2m 6 months	£2m 2 years
BBB or BBB-	£2m next day only	£4m 100 days	n/a	n/a	n/a
None	£1m 6 months	n/a	£4m 4 years	n/a	£4m 4 years
Pooled funds	£8m per fund				

Principle Sums Invested for Periods longer than 364 days

- 7.6. As a result of the cash balances held by NFDC being greater than expected, principal sums invested for periods longer than 364 days is now close to the limit set within the new strategy.
- 7.7. For 2015/16 NFDC restricted investments for periods of over a year to a maximum of £20.0m. At 31 August 2015 NFDC had £16.0m of investments with over 364 days to their maturity.
- 7.8. Therefore it would be prudent to increase this limit to £25.0m for 2015/16 to allow for further excess funds to be invested over a longer period so as to provide greater flexibility and to also take advantage of greater interest rates than those that are available in the over-night cash options.

Table 6	2015/16	2016/17	2017/18
Limit on principal invested beyond 364 days	£25m	£25m	£25m

- 7.9. Increasing the principle sum invested for periods longer than 364 days requires other limits to also be increased so as to comply with the new limit. These new limits are shown in the tables below.

Table 7: Non-Specified Investment Limits	Cash Limit
Total long-term investments	£25m
Total investments without credit ratings or rated below A- (excluding investments with other local authorities)	£10m
Total non-Sterling investments	£0m
Total investments in foreign countries rated below AA+	£0m
Total non-specified investments	£45m

Table 8: Interest Rate Exposures	2015/16	2016/17	2017/18
Upper limit on fixed interest rate investment exposure	£25.0m	£25.0m	£25.0m
Upper limit on variable interest rate investment exposure	£80.0m	£80.0m	£80.0m
Upper limit on fixed interest rate borrowing exposure	£163.4m	£163.7m	£159.8m
Upper limit on variable interest rate borrowing exposure	£163.4m	£163.7m	£159.8m

8. CRIME AND DISORDER AND ENVIRONMENTAL IMPLICATIONS

8.1. None arising directly from this report.

9. RECOMMENDATIONS

Members are recommended to:

- 9.1. consider the performance of the treasury function detailed in this report.
- 9.2. note the plan to add up to a further £4m of long-term pooled investments to New Forest District Council's investment portfolio.
- 9.3. note paragraphs 4.11 and 4.12 of this report which detail the one instance of investment limits being breached.
- 9.4. approve the changes to the 2015/16 Treasury Management Strategy as detailed in section 7.

Further information	Background papers
Please contact Andrew Bouflower (HCC), or Bob Jackson (Executive Director)	The Prudential Code, CIPFA Guidance Notes and ODPM Investment Guidance
	Local Government Act 2003
email: andrew.bouflower@hants.gov.uk	SI 2003/3146 Local Authorities (Capital Finance and Accounting) (England)

bob.jackson@nfdc.gov.uk	Regulations 2003
	Council 23 January 2015 – Audit Committee - Treasury Management Strategy Report 2015/16
	Published Papers

AUDIT COMMITTEE – 25 SEPTEMBER 2015

AUDIT COMMITTEE – ANNUAL WORK PLAN AND TRAINING

1.0 WORK PLAN

- 1.1 This report details the draft work plan for the Audit Committee for 2015/2016.
- 1.2 The work plan may evolve during the year, due to, for example, any changes in legislation, change relating to the External Auditor timetables, or new reports which need to be brought to the attention of the Committee.

2.0 FINANCIAL IMPLICATIONS

- 2.1 There are no financial consequences directly arising from this report.

3.0 EQUALITY & DIVERSITY, CRIME AND DISORDER AND ENVIRONMENTAL MATTERS

- 3.1 There are no equality and diversity, crime or disorder or environmental matters directly associated with this report.

4.0 RECOMMENDATIONS

- 4.1. That the Audit Committee considers and approves the Work Plan as appended and informs Officers of any requested changes.

For Further Information Contact:

Andy Rogers
Committee Administrator
Tel: 02380 285588
Andy.rogers@nfdc.gov.uk

DATE	WORK / REPORTS
22 January 2016	External Audit Annual Audit Letter External Audit – Certification of Grant and Returns Report Governance Action Plan Follow up Internal Audit Progress report against the audit plan and Outstanding high priority audit recommendations Annual RIPA report Treasury Management Strategy
18 March 2016	External Audit Annual Plan for 2015/16 External audit fees for 16/17 Internal Audit Progress report against the audit plan and Outstanding high priority audit recommendations Internal Audit Charter, Assurance Framework & Internal Audit Plan 16/17 Response to the external auditor on the management and controls in the organisation
24 June 2016	Audit Committee Introduction & Terms of Reference Insurance Procurement External audit progress report on 15/16 audit Annual Outturn for Treasury Management 2015/16 Write-Offs 2015/16 Annual Waivers Report 2015/16 Review of the Local Code of Good Governance 2015/16 Internal Auditor's Annual Opinion Report 2015/16 Draft Annual Financial Report 2015/16 Annual Governance Statement 2015/16 Audit Committee Annual Report 2015/16 Audit Committee letter to the External Auditor Internal Audit Progress report against 16/17 Q1 Annual Work Programme and Training
23 September 2015	External Auditor – Audit Results Report 2015/16 External Auditor - Opinion on the Statement of Accounts & Value for Money Statement of Accounts 2015/16 Annual Governance Statement 2015/16 Treasury Management Q2 Internal Audit Progress report against the audit plan and Outstanding high priority audit recommendations Q2 Counter Fraud Update Report Risk Management