



STATEMENT OF ACCOUNTS 2013/14

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FOREWORD BY THE HEAD OF FINANCE

Following significant changes to the presentation of the Statement of Accounts in 2010/11 and further changes in 2011/12, there have been few changes to the presentational and disclosure requirements for 2013/14. Consequently, the Statement of Accounts and associated notes that follow are presented on a largely comparable basis to those prepared for 2012/13.

The most significant change relates to the valuation of assets and liabilities in the pension fund. This has required a number of restatements to comparative figures in the Comprehensive Income and Expenditure Statement, the Movement in Reserves Statement and the disclosure notes. The impact of the restatement is shown in Note 2 to the accounts.

In operational terms, the most significant changes affecting Test Valley Borough Council in 2013/14 were both related to local taxation. These were:

- The abolition of Council Tax benefit and the introduction of local Council Tax support. As part of the transition to Council Tax Support, government funding was cut by approximately 10% which the Council has managed by changing some of the discounts and exemptions offered.
- A new accounting regime for business rates came into effect on 1st April 2013. The new scheme enables the Council to retain an element of business rates received over an amount specified by government. The Council also takes some of the risk of businesses not paying business rates or appealing against the charge. The large increase in debtor, creditor and provision balances in the Balance Sheet is mainly attributable to business rates' transactions. The effect of this is explained in more detail later in the foreword.

The Statement of Accounts

The accounts comprise the following key statements:

- **The Statement of Responsibilities** declares the respective responsibilities of the Council and the Head of Finance for the production of the Statement of Accounts.
- **The Comprehensive Income & Expenditure Statement** shows all income and expenditure incurred by the Council throughout the year; it includes day-to-day transactions from running the organisation as well gains / losses on assets and pension liabilities. The total comprehensive income and expenditure shown represents the total movement in the Council's reserves during the year.
- **The Movement in Reserves Statement** summarises the changes in balances on the Council's reserves in the year. Reserves are classified as either usable or unusable. Usable reserves include the unallocated General Fund Balance, Earmarked Revenue Reserves and the Capital Receipts Reserve. These are the reserves that the Council can apply to future expenditure subject to statutory conditions (e.g. the Capital Receipts Reserve can only be used to finance capital expenditure). Unusable reserves such as the Capital Adjustment Account and Revaluation Reserve generally reflect the timing differences between the purchase and the consumption of economic benefits of assets.
- **The Balance Sheet** shows the financial position of the Council and discloses the assets and liabilities for all Council Services. At the balance sheet date the net worth of the Council was £140.2M.

- **The Cash Flow Statement** summarises the Council's cash transactions for the year.
- **The Collection Fund** records all income from Council Tax and business rates. Expenditure includes payments to central government, Hampshire County Council (HCC), Hampshire Fire & Rescue (HFRA) and the Council's General Fund in respect of business rates' income; and precepts to HCC, HFRA, Hampshire Police Authority, local parish/town councils and the Council's own demand on the Collection Fund. The Collection Fund is not incorporated within the Comprehensive Income & Expenditure Statement as it reflects the statutory requirement for billing authorities to maintain a separate Collection Fund.

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

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

Financial Performance

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

General Fund Revenue Activities

The initial forecast of General Fund revenue requirements began soon after the budget for 2012/13 was approved. A significant range of essential savings / improved income opportunities was identified and included in the budget and this is likely to be required again in the medium term.

The detailed budget was approved by Council on 22nd February 2013. The net expenditure forecast for 2013/14 agreed at this stage totalled £11.062M. No draws from general reserves were included in the budget.

The revised budget for 2013/14 was approved by Council on 21st February 2014. The net expenditure was maintained at £11.062M, with no draws from general reserves.

The actual outturn for 2013/14 was better than expected, enabling an additional £1.088M to be transferred to the asset management reserve.

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

	Revised Budget 2013/14	Actual 2013/14	Variance
	£'000	£'000	£'000
Service Expenditure (including Investment Property income and expenditure)	14,084	12,945	1,139
Corporate Items			
Reversal of capital charges including depreciation	(3,114)	(3,465)	351
Investment income and borrowing	(550)	(547)	(3)
Non-service related grants	(1,690)	(2,511)	821
Business rates' levy	0	139	(139)
Transfers to Earmarked / Capital reserves	2,241	3,695	(1,454)
Additional transfers to reserves arising from surplus in year	0	1,088	(1,088)
Transfer to Pension Reserve	0	(279)	279
Other	91	(7)	98
GENERAL FUND REQUIREMENTS	11,062	11,058	4
Met By			
Revenue Support grant	3,127	3,127	0
Locally retained business rates	2,080	2,076	4
Council Tax	5,761	5,785	(24)
Other Collection Fund	94	70	24
TOTAL REVENUE RESOURCES	11,062	11,058	4

Accounting for Business Rates

Under the new accounting arrangements for business rates the Council retains 40% of the business rates collected; this was estimated to be £17.790M for 2013/14. From this amount the Council was required to pay the government a 'tariff' of £15.710M, leaving net budgeted income in the year of £2.080M.

Actual income from business ratepayers in the year was £432,000 less than budgeted, of which the Council's share was £173,000. However, after taking into account grants from the government in respect of Small Business Rate Relief there was an overall surplus of £278,000. 50% of this is payable to the government as a levy on growth, so the Council will retain a net surplus of £139,000 in respect of business rates' transactions in the year.

A summary of the actual position is shown in the table below.

	£'000
Shortfall in business rates collected in Collection Fund	(432)
TVBC share of deficit in Collection Fund (40% of above)	(173)
Small Business Rate Relief grant received in General Fund	451
Net surplus on business rates	278
Levy @ 50% payable to government	(139)
Income retained by Test Valley	139

Asset Valuation Programme

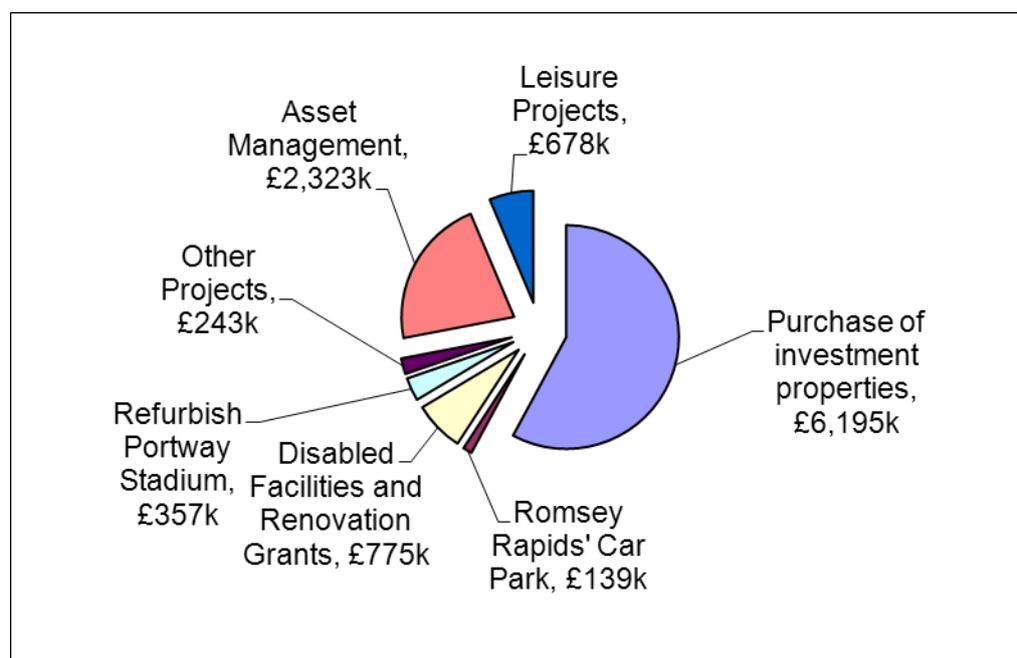
The Council's internal RICS qualified valuers provided a valuation certificate for all of the Council's investment properties and certain land and buildings assets. They also carried out an impairment review on all other non-current assets as at 31st March 2014.

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

The net impact of the valuation programme was an increase in the value of the Council's investment properties of £2.839M.

Capital Activities

Capital spending for the year totalled £10.710M, as summarised in the following chart:



The Council finances its capital expenditure from a mixture of usable capital receipts, capital grants and contributions. In 2013/14, the majority of funding (68.0%) came from usable capital receipts (£7.281M) with the remainder (£3.429M) coming from capital grants and contributions from revenue. The Council has set aside reserves for the future maintenance of its assets; budgeted asset management costs in 2014/15 and beyond will be funded from these reserves. The Council is debt free and has no long term borrowing.

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

	2014/15	2015/16
	£'000	£'000
Affordable Housing capital projects	638	0
Community & Leisure projects	1,063	10
Disabled facilities and renovation grants	850	65
Asset Management projects	2,349	0
Romsey Town Centre Development	30	120
Refurbish Former Magistrates' Court Offices	465	0
Other capital projects	696	61
TOTAL	6,091	256

Financial Position at the Year End

General Fund reserves stood at £2M at 1st April 2013. I consider this to be a prudent minimum level of general reserves and this figure remains unchanged for the accounts at 31st March 2014.

In addition to the General Fund balances mentioned above, the Council held earmarked reserves of £13.039M available for specific revenue purposes and capital reserves of £28.319M available to spend on capital schemes.

Accounting for Defined Benefit Pension Schemes

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

The main features of this standard are:

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

Full details of these adjustments can be found in note 13 to the core financial statements.

This Council's liability at 31st March 2014 was £44.0M, but statutory arrangements for funding this liability are in place and the financial position of the Council remains healthy.

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

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

The surplus in 2013/14 has enabled the Council to bolster reserves held for the future maintenance and replacement of assets. This, together with a number of specific reserves held to ameliorate the impact of cuts in government funding, will help ensure that the financial challenges that will be faced in coming years can be managed in a controlled manner.

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

Conclusion

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

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

W. Fullbrook CPFA
Head of Finance

STATEMENT OF RESPONSIBILITIES FOR THE STATEMENT OF ACCOUNTS 2013/14

The Council's Responsibilities

The Council is required to:

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

The Head of Finance's Responsibilities

The Head of Finance is responsible for the preparation of the Council's Statement of Accounts in accordance with proper practices as set out in the CIPFA/LASAAC *Code of Practice on Local Authority Accounting in the United Kingdom* (the Code).

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

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

The Head of Finance has also:

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

Certification of the Head of Finance

I hereby certify that the Statement of Accounts gives a true and fair view of the financial position of the Council at the accounting date and its income and expenditure for the year ended 31st March, 2014.

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

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

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

Opinion on the Authority's financial statements

We have audited the financial statements of Test Valley Borough Council for the year ended 31 March 2014 under the Audit Commission Act 1998. The financial statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement and the related notes 1 to 37, and the Collection Fund and related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14.

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

Respective responsibilities of the Head of Finance and auditor

As explained more fully in the Statement of Responsibilities for the Statement of Accounts 2013/14 set out on page 6, the Head of Finance is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14, and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Authority's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Responsible Financial Officer; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the explanatory foreword and Statement of Accounts 2013/14 to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the financial position of Test Valley Borough Council as at 31 March 2014 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14.

Matters on which we report by exception

We report to you if:

- in our opinion the annual governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007 (updated as at December 2012);
- we issue a report in the public interest under section 8 of the Audit Commission Act 1998;
- we designate under section 11 of the Audit Commission Act 1998 any recommendation as one that requires the Authority to consider it at a public meeting and to decide what action to take in response; or
- we exercise any other special powers of the auditor under the Audit Commission Act 1998.

We have nothing to report in these respects.

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

Respective responsibilities of the Authority and the auditor

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

We are required under Section 5 of the Audit Commission Act 1998 to satisfy ourselves that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires us to report to you our conclusion relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission.

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

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

We have undertaken our audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in October 2013, as to whether the Authority has proper arrangements for:

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

The Audit Commission has determined these two criteria as those necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2014.

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

Conclusion

On the basis of our work, having regard to the guidance on the specified criteria published by the Audit Commission in October 2013, we are satisfied that, in all significant respects, Test Valley Borough Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2014.

Certificate

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

Signature

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

Date

COMPREHENSIVE INCOME & EXPENDITURE STATEMENT YEAR ENDED 31 MARCH 2014

This statement shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation. The Council raises taxation to cover expenditure in accordance with regulations; this may be different to the accounting cost. The reconciliation to the Council Tax position is shown in the Movement in Reserves Statement and analysed in note 6.

	2012/13		Net Exp.	2013/14		Net Exp.	Note
	As re-stated			2012/13	Exp.		
	Exp.	Income	Exp.			Income	
Services	£'000	£'000	£'000	£'000	£'000	£'000	
Central Services	7,801	6,760	1,041	2,691	1,510	1,181	
Cultural & Related Services	6,139	1,920	4,219	6,810	2,001	4,809	
Environmental & Regulatory Services	8,002	1,403	6,599	7,783	1,486	6,297	
Planning & Development Services	5,949	2,733	3,216	6,335	3,313	3,022	
Highways & Transport Services	1,718	2,645	(927)	1,762	2,723	(961)	
Housing Services	32,727	30,822	1,905	31,875	30,724	1,151	
Corporate & Democratic Core	3,281	12	3,269	3,356	4	3,352	
Non - Distributed Costs	23	0	23	60	0	60	
Net Cost of Services	65,640	46,295	19,345	60,672	41,761	18,911	7
Other Operating Income and Expenditure							
Profit on disposal of Property, Plant & Equipment	0	60	(60)	0	1,324	(1,324)	19
Parish Precepts	1,085	1,085	0	1,044	1,044	0	
Financing and Investment Income and Expenditure							
Investment Income	0	634	(634)	0	557	(557)	30
Interest Payable	15	0	15	9	0	9	
Pension Fund Interest Costs	5,260	0	5,260	5,460	0	5,460	13
Changes in Fair Value of Investment Properties	5,454	0	5,454	0	2,839	(2,839)	16
Profit on Disposal of Investment Properties	0	30	(30)	0	0	0	19
Net Investment Property Income	462	5,653	(5,191)	508	5,802	(5,294)	16
Net Operating Expenditure	77,916	53,757	24,159	67,693	53,327	14,366	
Taxation and non-specific grant income							
Council Tax Income	0	6,021	(6,021)	0	5,866	(5,866)	8
Business Rates Income & Expenditure	0	0	0	16,018	17,786	(1,768)	8
Non Ringfenced Government Grants	0	5,989	(5,989)	0	5,638	(5,638)	8
Capital Grants and Contributions	0	722	(722)	0	699	(699)	8,20
Deficit on the provision of services	77,916	66,489	11,427	83,711	83,316	395	
Other comprehensive income and expenditure							
Net (gains) / losses on revaluation of Property, Plant & Equipment	0	184	(184)	682	0	682	15
Re-measurement of the net defined benefit pension liability	1,400	0	1,400	0	19,440	(19,440)	13
Total comprehensive income and expenditure	79,316	66,673	12,643	84,393	102,756	(18,363)	

MOVEMENT IN RESERVES STATEMENT YEAR ENDED 31 MARCH 2014

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

The Deficit on the Provision of Services line shows the true economic cost of providing the Council's services. This is different from the statutory amounts required to be charged to the General Fund balance for Council Tax setting. The reconciliation between the true economic cost and the balances for Council Tax setting are shown in more detail in note 6.

	General Fund Balance	Earmarked Reserves	Capital Receipts Reserve	Total Usable Reserves	Unusable Reserves	Total Authority Reserves	Note
	£'000	£'000	£'000	£'000	£'000	£'000	
<u>Movements during 2012/13</u>							
<u>(as re-stated)</u>							
Balance as at 31st March 2012	2,000	10,673	35,848	48,521	85,961	134,482	
Deficit on the Provision of Services	(11,427)	0	0	(11,427)	0	(11,427)	
Other Comprehensive Income & Expenditure	0	0	0	0	(1,216)	(1,216)	
Total Comprehensive Income & Expenditure	(11,427)	0	0	(11,427)	(1,216)	(12,643)	
Adjustments between accounting basis and funding basis under regulations	12,403	0	(1,499)	10,904	(10,904)	0	6
Net increase before transfers to earmarked reserves	976	0	(1,499)	(523)	(12,120)	(12,643)	
Transfers to earmarked reserves	(976)	976	0	0	0	0	27
Increase / (Decrease) in Year	0	976	(1,499)	(523)	(12,120)	(12,643)	
Balance as at 31st March 2013	2,000	11,649	34,349	47,998	73,841	121,839	
<u>Movements during 2013/14</u>							
Deficit on the Provision of Services	(395)	0	0	(395)	0	(395)	
Other Comprehensive Income & Expenditure	0	0	0	0	18,758	18,758	
Total Comprehensive Income & Expenditure	(395)	0	0	(395)	18,758	18,363	
Adjustments between accounting basis and funding basis under regulations	1,785	0	(6,030)	(4,245)	4,245	0	6
Net increase before transfers to earmarked reserves	1,390	0	(6,030)	(4,640)	23,003	18,363	
Transfers to earmarked reserves	(1,390)	1,390	0	0	0	0	27
Increase / (Decrease) in Year	0	1,390	(6,030)	(4,640)	23,003	18,363	
Balance as at 31st March 2014	2,000	13,039	28,319	43,358	96,844	140,202	

BALANCE SHEET AS AT 31 MARCH 2014

The Balance Sheet summarises the assets and liabilities recognised by the Council as at the Balance Sheet date. The net assets are matched by a combination of usable and unusable reserves. These are shown in more detail in notes 27 and 28.

	2012/13		2013/14		Note
	£'000	£'000	£'000	£'000	
Land & Buildings	56,954		54,099		15
Vehicles, Plant & Equipment	2,177		3,217		15
Community Assets	3,267		3,612		15
Infrastructure Assets	710		678		15
Property, Plant & Equipment (PPE)		63,108		61,606	
Investment Properties		67,087		78,062	16
Intangible Assets		793		716	17
Long-Term Debtors	17		17		
Long-Term Assets		17		17	
Cash and Cash Equivalents	12,106		9,948		21
Short-Term Investments	40,041		42,147		30
Inventories	189		168		
Debtors	7,191		8,443		22
Less: Bad Debt Allowance	(1,474)		(2,086)		22
Current Assets		58,053		58,620	
Creditors	(9,472)		(13,361)		23
Provisions	0		(1,454)		24
Current Liabilities		(9,472)		(14,815)	
Total Assets less Current Liabilities		179,586		184,206	
Creditors due after more than one year	77		34		14
Liability to Pension Fund	57,670		43,970		13
		(57,747)		(44,004)	
Total Assets Less Liabilities		121,839		140,202	
Usable Reserves					
General Fund Balance	2,000		2,000		27
Revenue and Earmarked Reserves	11,649		13,039		27
Capital Receipts Reserve	34,349		28,319		27
Total Usable Reserves		47,998		43,358	
Unusable Reserves					
Revaluation Reserve	19,151		17,540		28
Capital Adjustment Account	112,361		123,445		28
Deferred Credits	7		7		28
Collection Fund Adjustment Account	174		15		28
Accumulated Absences Account	(182)		(193)		28
Pension Fund Reserve	(57,670)		(43,970)		13, 28
Total Unusable Reserves		73,841		96,844	
Total Equity		121,839		140,202	

CASH FLOW STATEMENT YEAR ENDED 31 MARCH 2014

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

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

	2012/13		2013/14		Note
	As re-stated				
	£'000	£'000	£'000	£'000	
Revenue Activities					
Net deficit on the provision of services		(11,427)		(395)	
Adjustments for non-cash transactions					
Depreciation of PPE / Amortisation of intangibles	1,928		2,037		15,17
Revaluation (Gains) / Losses on Investment Properties	5,454		(2,839)		16
Impairment & Downward Valuations of PPE	64		465		15
Pension Fund Transfers	5,170		5,740		13
Other non-cash items	(42)		(2,023)		26
		12,574		3,380	
Adjustments in respect of Financing Transactions		(619)		(548)	
Adjustments in respect of Investing Activities		812		2,023	
Adjustments for items on an accruals basis					
Increase in Debtors	(733)		(1,893)		
(Increase) / Decrease in Inventories	(18)		21		
(Decrease) / Increase in Creditors	(22)		3,755		
		(773)		1,883	
Net Cash Inflow from Operating Activities		567		6,343	
Investing Activities					
Net (increase) / decrease in non-property investments	10,449		(2,106)		
Interest Received	824		579		
Interest Paid	(15)		(9)		
Purchase of Assets	(1,805)		(9,596)		
Sale of Assets	438		90		
Other Capital Cash Received	723		788		
Net Investing Activity Cashflow		10,614		(10,254)	
Financing Activities					
Cash payments to reduce outstanding finance	(101)		(77)		
Other income / (payments) for financing activities	(863)		1,830		26
		(964)		1,753	
Net Increase / (Decrease) in Cash and Cash Equivalents		10,217		(2,158)	
Cash and Cash Equivalents at the start of the reporting period		1,889		12,106	
Cash and Cash Equivalents at the end of the reporting period		12,106		9,948	

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NOTES TO THE FINANCIAL STATEMENTS

1. **Accounting Policies**

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

1.2. **General Principles**

The Statement of Accounts summarises the Council's transactions for the 2013/14 financial year and its position at the year-end of 31 March 2014. The Council is required to prepare an annual Statement of Accounts (by the Accounts and Audit regulations 2011) in accordance with proper accounting practices.

These practices primarily comprise; the Code of Practice on Local Authority Accounting in the United Kingdom 2013/14 and the Service Reporting Code of Practice 2013/14 supported by International Financial Reporting Standards (IFRS) and statutory guidance.

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

1.3. **Prior Period Adjustments**

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

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

The prior period adjustment in respect of disclosure of pension fund transactions is shown in more detail in note 2.

1.4. **Accruals of Income & Expenditure**

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

- Fees, charges and rents due from customers and income from the provision of services are accounted for as income at the date the Council provides the relevant goods or services; i.e. when it is probable that the economic benefits associated with the transaction will flow to the Council.
- Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption, they are carried as inventories on the Balance Sheet.
- Expenses in relation to services provided are recorded as expenditure when the services are received rather than when payments are made.
- Interest receivable on investments is accounted for on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.

- Where income and expenditure has been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where it is doubtful that debts will be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.

1.5. **Cash and Cash Equivalents**

Cash is represented by cash in hand.

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

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

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

Provisions

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

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

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

Contingent Liabilities

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

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

Contingent Assets

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

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

1.7. Reserves

The Council sets aside specific and general amounts as reserves for future purposes or to cover contingencies. Reserves are created by appropriating amounts out of the General Fund Balance in the Movement in Reserves Statement. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service revenue account in that year to be included in the surplus / deficit on the provision of services in the Comprehensive Income & Expenditure Statement. The reserve is then appropriated back in to the General Fund Balance in the Movement in Reserves Statement so that there is no net charge against Council Tax for the expenditure.

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

1.8. Government Grants and Contributions

Whether paid on account, by instalments or in arrears, government grants and third party contributions and donations are recognised as due to the Council when there is reasonable assurance that;

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

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

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

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

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

1.9. Employee Benefits

Benefits Payable During Employment

Short-term employee benefits are those due to be settled within twelve months of the year end. They include such benefits as wages and salaries, paid annual leave and paid sick leave, bonuses and non-monetary benefits (e.g. cars) for current employees and are recognised as an expense for services in the year in which employees render service to the Council.

An accrual is made for the cost of holiday entitlement and accrued flexible working hours (based on a sample of services) earned by employees but not taken before the year end which employees can carry forward into the next financial year. The accrual is charged to the surplus or deficit on the provision of services but then reversed out

through the Movement in Reserves Statement so that holiday benefits are charged to revenue in the financial year that the absence occurs.

Termination Benefits

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

Post-Employment Benefits

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

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

Full details of the valuation method are shown in note 13 to the core financial statements.

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

1.10. Events after the Balance Sheet Date

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

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

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

1.11. VAT

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

1.12. **Overheads and Support Services**

The cost of overheads and support services are charged to those that benefit from the supply or service in accordance with the costing principles of CIPFA's *Service Reporting Code of Practice 2013/14* (SerCOP) with the exception of:

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

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

1.13. **Intangible Assets**

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

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

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

1.14. **Investment Property**

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

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

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

1.15. **Property, Plant and Equipment**

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

Recognition

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

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

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

Measurement

Assets are initially measured at cost, comprising:

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

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

- infrastructure and community assets – depreciated historical cost
- all other assets – fair value, determined as the amount that would be paid for the asset in its existing use.

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

Where non-property assets have short useful lives or low values (or both), depreciated historical cost basis is used as a proxy for fair value.

Assets included in the Balance Sheet at fair value are revalued sufficiently regularly to ensure that their carrying amount is not materially different from their fair value at the year end, but as a minimum every five years. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. (Exceptionally, gains might be credited to the Comprehensive Income & Expenditure Statement where they arise from the reversal of a loss previously charged to a service.)

Where decreases in value are identified, they are accounted for as follows:

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

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

Impairment

Assets are assessed at each year-end as to whether there is any indication that an asset may be impaired. Where indications exist and any possible differences are estimated to be material, the recoverable amount of the asset is estimated and, where this is less than the carrying amount of the asset, an impairment loss is recognised for the shortfall.

Where impairment losses are identified, they are accounted for by:

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

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

Disposals

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

Amounts received for a disposal in excess of £10,000 are categorised as capital receipts. Receipts are required to be credited to the Capital Receipts Reserve, and can then only be used for new capital investment. Receipts are appropriated to the Reserve from the General Fund Balance in the Movement in Reserves Statement.

The written-off value of disposals is not a charge against Council Tax, as the cost of fixed assets is fully provided for under separate arrangements for capital financing. Amounts are appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

Depreciation

Depreciation is provided for on all assets by the systematic allocation of their depreciable amounts over their useful lives. An exception is made for assets without a determinable finite useful life (i.e. freehold land and certain Community Assets).

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

Componentisation of an asset will be considered where:

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

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

1.16. Heritage Assets

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

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

Heritage assets are either excluded from the Balance Sheet or included within Community Assets, valued at historic cost. The Code requires Heritage Assets to be classified separately on the Balance Sheet and to be valued at fair value. The Council has not re-stated Heritage Assets in accordance with the Code due to their immaterial overall value. The impact of this is explained in note 18.

1.17. Charges to Revenue for Non-Current Assets

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

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

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

1.18. Revenue Expenditure Funded From Capital Under Statute

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

1.19. Leases

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

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

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

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

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

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

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

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

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

Council as Lessee – Finance Leases

Assets held under finance leases are recognised on the Balance Sheet at the commencement of the lease at fair value measured at the lease's inception (or the present value of the minimum lease payments if lower). The asset recognised is matched by a liability for the obligation to pay the lessor.

Lease payments are apportioned between;

- a charge for the acquisition of the interest in the asset – applied to write down the lease liability and
- a finance charge (debited to the financing and investment income and expenditure line in the Comprehensive Income & Expenditure Statement).

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

The Council is not required to raise Council Tax to cover depreciation or revaluation and impairment losses arising on leased assets. Instead, a prudent annual contribution is made from revenue funds towards the deemed capital investment in accordance with statutory requirements. Depreciation, revaluation and impairment losses are therefore substituted by a revenue contribution in the General Fund balance, by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

Council as Lessee – Operating Leases

Rentals paid under operating leases are charged to the Comprehensive Income & Expenditure Statement as an expense of the services benefitting from the use of leased assets. Charges are made on a straight line basis over the life of the lease, even if this does not match the pattern of payments (e.g. there is a rent-free period at the commencement of the lease).

Council as Lessor – Finance Leases

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

Council as Lessor – Operating Leases

Where the Council grants an operating lease over an asset, the asset is retained in the Balance Sheet. Rental income is credited to the Other Operating Expenditure line in the Comprehensive Income & Expenditure Statement. Credits are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments (e.g. there is a premium paid at the commencement of the lease).

1.20. **Financial Instruments**

Financial Liabilities

Financial liabilities are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured at their fair value and subsequently carried at their amortised cost.

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

Financial Assets

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

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

1.21. Inventories

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

2. Prior Period Adjustment

There have been changes to IAS19 (Employee Benefits) that affect the disclosure of figures throughout the main statement pages and notes to the accounts.

The changes relate to the way that the return on Pension Fund assets is calculated and disclosed. Advance credit for anticipated outperformance of return seeking assets (such as equities) is no longer permitted under IAS19. This has been replaced with an equivalent figure calculated using a discount rate (as opposed to using a figure calculated using expected return on asset assumptions).

In order to be consistent with the new requirements of IAS19 the disclosures in relation to the Council's defined benefit pension scheme have changed from those published in 2012/13. By making these changes to the accounting standard it is intended that the presentation of the information is easier for the user to understand.

A summary of the effect of these changes is shown in the table below.

	Per 2012/13 Accounts	Adjustments	Revised Comparative
Comprehensive Income & Expenditure Statement			
Net Cost of Services	19,255	90	19,345
<u>Financing & Investing Income & Expenditure</u>			
Pension Fund Interest Costs	5,320	(60)	5,260
Pension Fund Return on Assets	(3,950)	3,950	0
<u>Other Comprehensive Income & Expenditure</u>			
Actuarial Losses on Pension Fund Income and Expenditure	5,380	(5,380)	0
Re-measurement of the net defined benefit pension liability	0	1,400	1,400
Total effect of re-statement	26,005	0	26,005
Movement in Reserves Statement			
Deficit on the provision of Services	(7,447)	3,980	(11,427)
Adjustments between accounting and funding basis *	8,423	(3,980)	12,403
* Analysed in note 6 as: 'Reversal of items relating to retirement benefits charged to the CI&ES'			

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

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

There are no Accounting Standard that have been issued but not yet adopted that would have had a material effect of this year's Statement of Accounts were they in effect for the year ended 31st March 2014, nor are they expected to have a material effect on the 2014/15 statement of accounts.

4. **Critical Judgements in Applying Accounting Policies**

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

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

Asset classifications – the Council has made judgements on whether assets are classified as Investment Property or PPE. These judgements are based on the main reason that the Council is holding the asset. If the asset is used in the delivery of services or is occupied by third parties who are subsidised by the Council they are deemed to be PPE assets whereas if full market rent is being charged this would indicate that the asset is an Investment Property. The classification determines how revalued amounts are shown in the accounts and whether depreciation is chargeable on the asset.

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

Providing for potential liabilities – the Council has made judgements about the likelihood of pending liabilities and whether a provision should be made or whether there is a contingent liability. The judgements are based on the degree of certainty concerning future and past events and the Council's control over them.

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

5. **Assumptions made about the Future and Other Major Sources of Estimation Uncertainty**

The Statement of Accounts contains estimated figures that are based on assumptions made by the Council about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates.

The items in the Council's Balance Sheet at 31st March 2014 for which there is a significant risk of material adjustment in the forthcoming financial year are explained in the table below.

Item	Uncertainties	Effect if actual results differ from assumptions
Bad Debt Allowance	The Council has made allowances for doubtful debts of £2.086M in 2013/14 (2012/13 £1.474M) based on what it believes to be a prudent but realistic level.	If collection rates were to deteriorate or improve, a 5% change would require an adjustment to the allowance of £104,300 (2012/13 £73,700).
Pension Liability	Estimation of the net liability to pay pensions depends on a number of complex judgments relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns from pension fund assets. A firm of actuaries is engaged by the pension fund administrator to provide expert advice about the assumptions to be applied.	More information can be found in Note 13 about the sensitivity to changes in assumptions in respect of: <ul style="list-style-type: none"> • The discount rate used • Salary inflation • Rates of increase to pensions in payment • Mortality rates
Provisions	The Council has made a provision of £1.454M in respect of its share of appeals made by ratepayers for past business rates' costs. It is not certain how many of the appeals will be upheld.	A 10% increase or decrease in the actual number of appeals upheld would result in a change to the provision of £145,400.

6. Adjustments between accounting basis and funding basis under regulation

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

Transactions in 2013/14

	General Fund Balance £'000	Capital Receipts Reserve £'000	Total Usable Reserves £'000	Unusable Reserves £'000	Note
Adjustments primarily involving the Capital Adjustment Account					
Depreciation of non-current assets	1,923	0	1,923	(1,923)	15
Amortisation of intangible assets	114	0	114	(114)	17
Impairment of non-current assets	465	0	465	(465)	15
Movement in the fair value of investment property	(2,839)	0	(2,839)	2,839	16
Profit on disposal of non-current assets	(1,324)	0	(1,324)	1,324	19
Revenue expenditure funded from capital under statute	538	(538)	0	0	28
Adjustments primarily involving the Capital Receipts Reserve					
Proceeds from disposal of non-current assets	0	1,328	1,328	(1,328)	27
Financing of new capital expenditure	(3,004)	(6,743)	(9,747)	9,747	20
Adjustments primarily involving the Pensions Reserve					
Reversal of items relating to retirement benefits charged to the CI&ES	7,710	0	7,710	(7,710)	13
Employer's contribution to pension fund / directly to pensioners	(1,970)	0	(1,970)	1,970	13
Adjustments primarily involving the Collection Fund Adjustment Account					
Amount by which Council Tax and Business Rates income credited to the CI&ES is different from Council Tax and Business Rates income calculated for the year in accordance with statutory requirements.	159	0	159	(159)	28
Adjustments primarily involving the Accumulated Absences Account					
Amount by which officer remuneration charged to the CI&ES on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements.	11	0	11	(11)	28
Insertion of items not shown in the Comprehensive Income & Expenditure Statement					
Voluntary provision for repayment of finance leases	0	(77)	(77)	77	28
Other adjustments	2	0	2	(2)	
	1,785	(6,030)	(4,245)	4,245	

Comparative Transactions for 2012/13

As re-stated	General Fund Balance	Capital Receipts Reserve	Total Usable Reserves	Unusable Reserves	Note
	£'000	£'000	£'000	£'000	
Adjustments primarily involving the Capital Adjustment Account					
Depreciation of non-current assets	1,826	0	1,826	(1,826)	15
Amortisation of intangible assets	102	0	102	(102)	17
Impairment of non-current assets	64	0	64	(64)	15
Movement in the fair value of investment property	5,454	0	5,454	(5,454)	16
Profit on disposal of non-current assets	(90)	0	(90)	90	19
Revenue expenditure funded from capital under statute	1,136	(1,136)	0	0	28
Adjustments primarily involving the Capital Receipts Reserve					
Proceeds from disposal of non-current assets	0	498	498	(498)	27
Financing of new capital expenditure	(1,233)	(760)	(1,993)	1,993	20
Adjustments primarily involving the Pensions Reserve					
Reversal of items relating to retirement benefits charged to the CI&ES	7,090	0	7,090	(7,090)	13
Employer's contribution to pension fund / directly to pensioners	(1,920)	0	(1,920)	1,920	13
Adjustments primarily involving the Accumulated Absences Account					
Amount by which officer remuneration charged to the CI&ES on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements.	(28)	0	(28)	28	28
Insertion of items not shown in the Comprehensive Income & Expenditure Statement					
Voluntary provision for repayment of finance leases	0	(101)	(101)	101	28
Other adjustments	2	0	2	(2)	
	12,403	(1,499)	10,904	(10,904)	

7. Amounts reported for resource allocation decisions

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

The analysis of income and expenditure on the face of the Comprehensive Income & Expenditure Statement (page 10) is that specified by the *Service Accounting Code of Practice*. However, decisions about resource allocation are taken by the Council's Cabinet on the basis of budget reports analysed by Service. The most significant differences between these reports are:

- Income earned from the Council's property portfolio is shown as a service income in the Estates & Economic Development Service when reporting to

Cabinet; however it is shown separately in the Comprehensive Income & Expenditure Statement as part of Financing and Investment Income & Expenditure.

- The Housing & Environmental Health Service outturn figure for 2013/14 included Disabled Facility Grants of £424,000 (2012/13 - £497,000). On the Comprehensive Income & Expenditure Statement this is shown as a capital grant received.

The tables below reconcile the revenue outturn report presented to Cabinet on 18th June 2014 to the net cost of services shown in the Comprehensive Income & Expenditure Statement.

Year ended 31st March 2014	Comm. & Leisure	Environmental Service	Estates & Economic Dev't	Housing, & Env. Health	Planning & Building	Planning Policy & Transport	Revenues & Benefits	Corporate & Support Services	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Fees, Charges and Other Service Income	1,752	2,581	8,647	1,677	1,848	3,452	2,417	6,199	28,573
Government Grants	0	0	0	10	0	0	29,836	27	29,873
Total Income	1,752	2,581	8,647	1,687	1,848	3,452	32,253	6,226	58,446
Employee Expenses	1,211	3,511	1,107	1,732	1,715	1,515	2,045	3,566	16,402
Other Operating Expenses	2,326	2,594	2,482	486	308	1,296	30,535	2,383	42,410
Support Service Recharges	720	560	742	1,096	952	685	784	3,687	9,226
Impairment Costs	294	0	172	0	0	0	0	0	466
Capital Charges to Revenue	954	520	318	892	9	51	49	206	2,999
Total Expenditure	5,505	7,185	4,821	4,206	2,984	3,547	33,413	9,842	71,503
Net Cost of Services	3,753	4,604	(3,826)	2,519	1,136	95	1,160	3,616	13,057

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

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

	2012/13 £'000	2013/14 £'000
Cost of Services in Expenditure Analysis	13,315	13,057
Amounts not reported to management	342	136
Amounts reported to management but not included in the CI&ES.	5,688	5,718
Cost of Services in the CI&ES	19,345	18,911

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

Reconciliation to Subjective Analysis - 2013/14	Service Analysis £'000	Not Reported to Management £'000	Not Included in CI&ES £'000	Net Cost of Services £'000	Corporate and Financing Amounts £'000	Total £'000
Fees, Charges and Other Service Income	28,573	(127)	(5,802)	22,644	5,802	28,446
Interest and Investment Income	0	0	0	0	557	557
Changes in Fair Value of Investment Properties	0	0	0	0	2,839	2,839
Income from Council Tax	0	0	0	0	6,910	6,910
Income from Business Rates	0	0	0	0	1,768	1,768
Government Grants	29,873	0	(424)	29,449	6,337	35,786
Total Income	58,446	(127)	(6,226)	52,093	24,213	76,306
Employee Expenses	16,402	9	(12)	16,399	12	16,411
Other Operating Expenses	42,410	0	(384)	42,026	384	42,410
Support Service Recharges	9,226	0	(112)	9,114	112	9,226
Impairment Costs	466	0	0	466	0	466
Capital Charges to Revenue	2,999	0	0	2,999	0	2,999
Interest Payable	0	0	0	0	9	9
Precepts	0	0	0	0	1,044	1,044
Pension Fund Interest Costs	0	0	0	0	5,460	5,460
Gain on disposal of assets	0	0	0	0	(1,324)	(1,324)
Total Operating Expenses	71,503	9	(508)	71,004	5,697	76,701
Deficit on the Provision of Services	13,057	136	5,718	18,911	(18,516)	395

Reconciliation to Subjective Analysis - 2012/13 - as re-stated	Service Analysis	Not Reported to Management	Not Included in CI&ES	Net Cost of Services	Corporate and Financing Amounts	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Fees, Charges and Other Service Income	27,234	(223)	(5,653)	21,358	5,653	27,011
Interest and Investment Income	0	0	0	0	634	634
Changes in Fair Value of Investment Properties	0	0	0	0	(5,454)	(5,454)
Income from Council Tax	0	0	0	0	7,106	7,106
Government Grants	35,800	0	(497)	35,303	6,711	42,014
Total Income	63,034	(223)	(6,150)	56,661	14,650	71,311
Employee Expenses	15,747	62	(26)	15,783	26	15,809
Other Operating Expenses	47,808	28	(329)	47,507	329	47,836
Support Service Recharges	9,198	0	(107)	9,091	107	9,198
Impairment Costs	65	0	0	65	0	65
Capital Charges to Revenue	3,531	29	0	3,560	0	3,560
Interest Payable	0	0	0	0	15	15
Precepts	0	0	0	0	1,085	1,085
Pension Fund Interest Costs	0	0	0	0	5,260	5,260
Gain on disposal of assets	0	0	0	0	(90)	(90)
Total Operating Expenses	76,349	119	(462)	76,006	6,732	82,738
Deficit on the Provision of Services	13,315	342	5,688	19,345	(7,918)	11,427

8. Taxation and Non-Specific Grant Income

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

Taxation / Non-Ringfenced Grants	Awarding Body	2012/13 £'000	2013/14 £'000
Council Tax Income	Council Taxpayers	6,021	5,866
Revenue Support Grant	DCLG	96	3,127
Business Rates Re-Distribution	DCLG	4,946	0
New Homes' Bonus	DCLG	799	1,676
Business Flood Support	DCLG	0	350
Small Business Rate Relief	DCLG	0	451
Council Tax Support - Transition Grant	DCLG	0	14
Capital Provision Re-Distribution Grant	DCLG	0	17
Transparency Code Set-Up	DCLG	0	3
Council Tax Freeze Grant	DCLG	148	0
		12,010	11,504

2013/14 saw the introduction of a new regime for accounting for business rates. The net income shown in the Comprehensive Income & Expenditure Statement is comprised of a number of transactions that are summarised in the table below.

Business Rates Income & Expenditure	2012/13	2013/14
	£'000	£'000
Share of income transferred from Collection Fund	0	17,786
Tariff paid to government	0	(15,710)
Share of deficit on Collection Fund in the year	0	(169)
Levy payable to government in respect of growth in the year	0	(139)
Net Business Rates Income	0	1,768

Other grants and contributions were received in the year as shown in the following tables.

Capital Grants and Contributions		2012/13	2013/14
		£'000	£'000
Disabled Facilities Grant	DCLG	496	425
Contributions to works on property	Tenants	0	125
Contributions under s106 agreements / capital grants	Developers	226	149
		722	699

Specific Grants included in the Net Cost of Services	Awarding Body	2012/13	2013/14
		£'000	£'000
Housing & Council Tax Benefit Subsidy	Dep't for Work & Pensions	34,800	28,912
Housing & Council Tax Administration Grant	Dep't for Work & Pensions	564	562
Benefits' Caseload Grant	Dep't for Work & Pensions	34	0
Discretionary Housing Payments	Dep't for Work & Pensions	33	128
Council Tax Reform New Burden Grant	DCLG	84	49
Business Rates Collection	DCLG	183	184
Community Right to Bid	DCLG	5	0
Community Right to Challenge	DCLG	9	9
Assets of Community Value	DCLG	0	8
Housing Needs - Homelessness	DCLG	88	0
Local Welfare Assistance	DCLG	0	10
Individual Electoral Registration	DCLG	0	11
		35,800	29,873

9. Special Expenses

Income from the special Council Tax Levy which applies in the Andover Town Council area was £282,300 in 2013/14 (£319,900 – 2012/13).

10. External Audit Costs

In 2013/14 Test Valley Borough Council incurred the following fees in relation to external audit and inspection.

Class of Work	2012/13 £'000	2013/14 £'000
External Audit Fees	69	70
District Council Rebate	(6)	(10)
Certification of Grants Claim and Returns - 2011/12	31	0
Certification of Grants Claim and Returns - 2012/13	20	0
Certification of Grants Claim and Returns - 2013/14	0	14
	114	74

11. Members' Allowances

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

	2012/13 £'000	2013/14 £'000
Allowances	413	417
Expenses	15	12
Total Members' Allowances	428	429

12. Officers' Remuneration and Termination Benefits

The number of employees whose remuneration, excluding pension contributions was £50,000 or more in bands of £5,000 in 2013/14 was:-

Remuneration Band	2012/13 Number of Employees	2013/14 Number of Employees
£50,000 - £54,999	10	13
£55,000 - £59,999	2	3
£60,000 - £64,999	3	0
£65,000 - £69,999	7	8
£70,000 - £74,999	0	1
£75,000 - £89,999	0	0
£90,000 - £94,999	1	0
£95,000 - £99,999	1	1
£100,000 - 104,999	0	1
£105,000 - 114,999	0	0
£115,000 - £119,999	1	0
£120,000 - £129,999	0	0
£130,000 - £134,999	0	1

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

The 'Total Remuneration excluding pension contributions' of the officers below is included in the pay bandings on the previous page.

Post	Salary (Including Fees and Allowances)		Car Allowance and Other Expenses		Total Remuneration Excluding Pension Contributions		Pension Contributions		Total Remuneration Including Pension Contributions	
	12/13	13/14	12/13	13/14	12/13	13/14	12/13	13/14	12/13	13/14
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Chief Executive - Note 1	109	127	7	7	116	134	14	14	130	148
Corporate Director	90	94	7	7	97	101	12	12	109	113
Corporate Director	86	93	4	4	90	97	11	12	101	109
Head of Administration	61	63	5	5	66	68	8	8	74	76
Head of Community & Leisure	61	63	6	6	67	69	8	8	75	77
Head of Environmental Services	61	64	5	5	66	69	8	8	74	77
Head of Estates	62	63	4	4	66	67	8	8	74	75
Head of Finance	61	62	4	4	65	66	8	8	73	74
Head of Housing & Environmental Health	61	63	5	5	66	68	9	9	75	77
Head of IT - Note 2	61	62	6	4	67	66	8	8	75	74
Head of Legal & Democratic	57	50	3	5	60	55	7	7	67	62
Head of Planning & Building	61	62	4	4	65	66	8	8	73	74
Head of Planning Policy & Transport	61	64	6	10	67	74	8	8	75	82

Note 1 – The total remuneration of the Chief Executive includes both a salary for work carried out as Head of Paid Service for the Council and also fees payable as the Local Returning Officer for elections held in the year. Payments as returning officer in 2013/14 were £13,700 (2012/13 £1,450).

Note 2 – The Council shared the Head of IT with Winchester City Council in the year and received £39,900 as a contribution towards the employment costs of the postholder (2012/13 £40,300).

Note 3 – The Council shares the Head of Revenues with Winchester City Council. The Council's contribution towards this post in 2013/14 was £37,200 (2012/13 £37,100) which covers salary and associated employer costs including pension contributions.

Note 4 – In early 2014 a number of senior officers were required to carry out additional duties as part of the Council's response to flooding in its area.

Standby / overtime payments (totalling £17,600) made to senior officers are included in the Salary column above. All overtime costs in this regard will be recovered from the government's national 'Bellwin' scheme.

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

Exit Package Band	Number of Redundancies		Number of Other Departures		Total Cost of Exit Packages by Band	
	2012/13	2013/14	2012/13	2013/14	2012/13 £'000	2013/14 £'000
£0 - £20,000	0	0	3	0	11	0
£20,001 - £60,000	2	0	0	0	90	0
Total	2	0	3	0	101	0

The Code required that exit packages are banded in groupings of £20,000 for disclosure purposes. In 2012/13 the Council combined two bands in the table above due to the low number of staff involved which could lead to identification of individuals. There were no redundancies or other terminations in 2013/14.

All the costs above were charged to the Comprehensive Income & Expenditure Statement in the year. None of the above costs relate to senior officers.

13. Defined Benefit Pension Scheme

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

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

The accounts recognise the cost of retirement benefits in the Net Cost of Services when they are earned by employees, rather than when the benefits are eventually paid as pensions. However, the charge made against the Council Tax is based on cash payable in the year, so the real cost of retirement benefits is reversed out of the General Fund in the Movement in Reserves Statement.

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

Comprehensive Income & Expenditure Statement	2012/13	2013/14
Figures as re-stated for 2012/13	£'000	£'000
Cost of Services		
Current Service Costs	2,040	2,470
Unfunded Benefits Paid Out	(210)	(220)
Financing & Investment Income & Expenditure		
Interest Cost	5,260	5,460
Total amount included in the Deficit on Provision of Services	7,090	7,710
Other Comprehensive Income & Expenditure		
Actuarial gains / (losses) due to change in financial assumptions	(10,980)	9,470
Actuarial gains due to demographic assumption changes	0	110
Experience gains on liabilities	180	3,290
Remeasurement gains on assets	6,470	3,540
Return on pension fund assets	2,930	3,030
Total amount charged to the Comprehensive Income & Expenditure Statement	5,690	27,150
Movement In Reserves Statement		
Reversal of net charges made to the deficit on the provision of services in accordance with the Code	(7,090)	(7,710)
Actual employer's contributions payable	1,920	1,970
Total Amount included in the Movement in Reserves Statement (note 6)	(5,170)	(5,740)

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

The Council contributes to the Pension Fund at a common rate applicable to a group of employees which is set having regard to the assets and liabilities of the group as a whole. In 2013/14 the rate was 13.1% plus a fixed sum contribution of £610,000 (2012/13 13.1% plus £610,000 fixed sum contribution).

It is forecast that pension contributions payable by the employer in 2014/15 in respect of regular contributions will amount to £2.10M and in respect of unfunded liabilities will amount to £220,000.

Assets & Liabilities in relation to retirement benefits

The tables below show the Council's liabilities to the Pension Fund and its share of the Fund's assets at the year end. The net liability at 31st March 2014 was £43.97M (2012/13 - £57.67M).

Liabilities	2012/13	2013/14
	re-stated	
	£'000	£'000
Opening present value of funded liabilities	110,580	125,080
Current Service Cost	2,040	2,470
Interest Cost	5,110	5,310
Contributions by Participants	680	680
Actuarial (gain) / loss on liabilities due to change in financial assumptions	10,580	(9,270)
Actuarial gain on liabilities due to change in demographic assumptions	0	(210)
Experience gains on liabilities	(190)	(3,280)
Net benefits paid out (including unfunded liabilities)	(3,720)	(4,090)
Closing present value of unfunded liabilities	125,080	116,690
Opening present value of unfunded liabilities	3,450	3,800
Interest Cost	150	150
Actuarial (gain) / loss on liabilities due to change in financial assumptions	400	(200)
Actuarial loss on liabilities due to change in demographic assumptions	0	100
Experience (gains) / losses on liabilities	10	(10)
Net Benefits Paid Out	(210)	(220)
Closing present value of unfunded liabilities	3,800	3,620
Total present value of scheme liabilities	128,880	120,310

Assets	2012/13	2013/14
	re-stated	
	£'000	£'000
Opening fair value of assets	62,930	71,210
Interest income on assets	2,930	3,030
Actuarial gain on assets	6,470	3,540
Contributions by the employer	1,920	1,970
Contributions by Participants	680	680
Net benefits paid out	(3,720)	(4,090)
Closing fair value of assets	71,210	76,340

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

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

Assets	2012/13	2013/14
	re-stated	
	£'000	£'000
Interest income on assets	2,930	3,030
Actuarial gains on assets	6,470	3,540
Actual return on assets	9,400	6,570

Basis for estimating assets and liabilities

Liabilities have been assessed on an actuarial basis using the projected unit credit method, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels, etc.. The Fund's liabilities have been assessed by an independent firm of actuaries, based on the latest full valuation of the scheme carried out as at 31 March 2013.

The principal assumptions used by the actuary were:

	2012/13	2013/14
Discount rate for funded liabilities	4.3%	4.3%
Discount rate for unfunded liabilities	4.1%	4.2%
Rate of Inflation - RPI (funded)	3.6%	3.3%
Rate of Inflation - RPI (unfunded)	3.5%	3.2%
Rate of Inflation - CPI (funded)	2.7%	2.3%
Rate of Inflation - CPI (unfunded)	2.6%	2.2%
Rate of increase in salaries	4.6%	3.8%
Rate of increase in pensions in payment	2.7%	2.3%
Rate of increase in pensions in deferment	2.7%	2.3%
Mortality Assumptions		
Longevity at 65 for current pensioners (years)		
Men	24.0	24.4
Women	25.0	26.2

It is assumed that each member will surrender pension on retirement, such that the total cash received (including any accrued lump sum from pre-2008 service) is 70% of the permitted maximum (2012/13 exchange 25% of the maximum value permitted of their pre 1st April 2010 pension entitlement on retirement for an additional lump sum and 75% of the maximum value permitted of their post 31st March 2010 pension entitlements for an additional lump sum).

The proportions of total assets held in each asset type, shown below, reflect the proportions held by the Fund as a whole at 31st March 2014.

	2012/13	2013/14
	%	%
Equities	57.6%	60.8%
Bonds	26.2%	25.2%
Property	7.8%	7.5%
Other	8.4%	6.5%
Total	100.0%	100.0%

The figures in this note are sensitive to the assumptions used. The approximate impact of changing the key assumptions on the present value of the funded defined benefit obligation as at 31st March 2014 and the projected service cost for the year ending 31st March 2015 is set out in the table below. In each case, only the assumption mentioned is altered; all other assumptions remain the same.

Discount rate		
Adjustment to rate	+0.1% pa	-0.1% pa
Present value of total obligation (£M)	114.84	118.64
% change in present value of total obligation	-1.6%	1.7%
Projected service cost (£M)	2.18	2.31
Approx % change in projected service cost	-2.7%	3.1%
Rate of increase in salaries		
Adjustment to salary increase rate	+0.01% pa	-0.1% pa
Present value of total obligation (£M)	116.98	116.41
% change in present value of obligation	0.2%	-0.2%
Projected service cost (£M)	2.24	2.24
Approx % change in projected service cost	0.0%	0.0%
Rate of increase to pensions in payment		
Adjustment to pension rate	+0.01% pa	-0.1% pa
Present value of total obligation (£M)	118.32	115.17
% change in present value of obligation	1.4%	-1.3%
Projected service cost (£M)	2.31	2.18
Approx % change in projected service cost	3.1%	-2.7%
Post retirement mortality assumptions (follow pattern of person one year older or younger)		
Adjustment to pension rate	-1 year	+1 year
Present value of total obligation (£M)	119.65	113.72
% change in present value of obligation	2.5%	-2.5%
Projected service cost (£M)	2.31	2.17
Approx % change in projected service cost	3.1%	-3.1%

14. Leases

Finance Leases

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

	2012/13	2013/14
	£'000	£'000
Vehicles, Plant & Equipment	155	77

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

	2012/13	2013/14
	£'000	£'000
Present value of lease payments		
Less than one year	78	43
One to five years	77	34
Finance Costs payable in future years	10	4
Minimum Lease Payments	165	81

Operating Leases

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

	2012/13	2013/14
	£'000	£'000
Leases expiring in less than one year	87	46
Leases expiring between one to five years	48	4
Total lease rentals payable	135	50

In 2013/14 total rental payments amounted to £231,000 (2012/13 - £377,000). All rental payments in the year were minimum lease payments (i.e. no contingent rents were payable) and have mainly been charged to the Cultural and Related (£98,000; 2012/13 - £163,000) and Environmental and Regulatory (£128,000; 2012/13 - £193,000) lines in the Comprehensive Income & Expenditure Statement.

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

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

	2012/13	2013/14
	£'000	£'000
Receivable within one year	5,047	5,568
Receivable within one to five years	19,634	21,460
Receivable after five years	376,719	370,842
Total minimum lease rentals receivable	401,400	397,870

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

In 2013/14 the Council recognised income from contingent rents of £798,000 (2012/13 - £791,000).

15. Property, Plant & Equipment (PPE)

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

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

2013/14	Land & Buildings	Vehicles, Plant & Equipment	Infra structure	Community	Total
Cost / Valuation	£'000	£'000	£'000	£'000	£'000
Historic Cost b/f	43,281	5,043	827	4,195	53,346
Revaluation Increases shown in the Revaluation Reserve b/f	19,675	11	0	0	19,686
Revaluation Decreases shown in the CI&ES b/f	(3,433)	(507)	0	(738)	(4,678)
Additions	842	1,753	4	560	3,159
Revaluations	(682)	0	0	0	(682)
Reclassifications	(1,585)	0	0	0	(1,585)
Disposals - Historic Cost	0	0	(6)	0	(6)
Reverse depreciation on disposed / revalued assets	0	(1,256)	0	0	(1,256)
Impairments in year	(293)	0	0	(172)	(465)
Cost / Valuation at 31st March 2014	57,805	5,044	825	3,845	67,519
Depreciation					
Historic Cost Depreciation b/f	(2,032)	(2,367)	(117)	(190)	(4,706)
Depreciation on Revaluations b/f	(537)	(3)	0	0	(540)
Charge in year - Historic Cost	(900)	(712)	(30)	(43)	(1,685)
Charge in year - Revalued Amounts	(237)	(1)	0	0	(238)
Reverse depreciation on disposed / revalued assets	0	1,256	0	0	1,256
Depreciation at 31st March 2014	(3,706)	(1,827)	(147)	(233)	(5,913)
Net Book Value at 31st March 2014	54,099	3,217	678	3,612	61,606
Net Book Value at 31st March 2013	56,954	2,177	710	3,267	63,108

Comparative Information for 2012/13

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

Depreciation is charged based on the following assumed useful economic lives

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

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

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

	Cost	Depreciated Cost	Reval 2009/10	Reval 2010/11	Reval 2011/12	Reval 2012/13	Reval 2013/14	Total value of PPE
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Land and Buildings	88	0	39,066	293	2,298	8,159	4,195	54,099
Vehicles, Plant & Equipment	233	2,539	445	0	0	0	0	3,217
Infrastructure	0	678	0	0	0	0	0	678
Community	3,188	424	0	0	0	0	0	3,612
Total PPE Assets	3,509	3,641	39,511	293	2,298	8,159	4,195	61,606

The Council carries out a rolling programme of valuations that ensures all PPE assets are valued at least once every five years. Revaluations in 2013/14 were carried out by the Council's internal RICS registered valuers and all revaluations were carried out as at 31st March 2014.

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

At the 31st March 2014 contractual commitments on existing capital schemes totalled £361,000 (2012/13 £577,000). The largest single commitment was for £133,000 in respect of contributions to the county-wide rural broadband project.

16. Investment Properties

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

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

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

	2012/13	2013/14
	£'000	£'000
Balance at start of year	72,823	67,087
Purchase of new property	0	6,194
Expenditure on existing property	3	357
Net changes in fair value of property	(5,454)	2,839
Disposals	(285)	0
Reclassifications	0	1,585
Balance at end of year	67,087	78,062

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

	2012/13	2013/14
	£'000	£'000
Rental income from Investment Property	5,653	5,802
Investment Property direct costs	(462)	(508)
Net Investment Property income	5,191	5,294

17. Intangible Assets

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

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

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

	Software Licences	Market Rights	Total
	£'000	£'000	£'000
Cost or Valuation			
Cost / Fair Value b/f	732	414	1,146
Additions	37	0	37
Cost / Valuation at 31st March 2014	769	414	1,183
Amortisation			
Amortisation of Historic Cost b/f	(353)	0	(353)
Charge for the year	(114)	0	(114)
Amortisation at 31st March 2014	(467)	0	(467)
Net Book Value as at 31st March 2014	302	414	716
Net Book Value as at 31st March 2013	379	414	793

Comparative information for 2012/13

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

18. Heritage Assets

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

	Carrying Value	Fair Value	Carrying Value	Fair Value
	2012/13	2012/13	2013/14	2013/14
	£'000	£'000	£'000	£'000
Included in Community Assets	83	258	83	258
Not included in the Balance Sheet	0	190	0	190
Total	83	448	83	448

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

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

19. Profit on Disposal of Assets

During the year, the Council made a net profit on the disposal of fixed assets of £1.324M (2012/13 £90,000). An analysis of this profit is shown in the table below.

	2012/13	2013/14
	£'000	£'000
Right To Buy Contributions	60	1,238
Profit on disposal of property, plant & equipment	0	86
Profit on disposal of investment property	30	0
Total Profit on Disposal of Assets	90	1,324

20. Capital Expenditure and Financing

Total Capital Expenditure to be financed in 2013/14 amounted to £10.710M. This can be analysed as expenditure on new assets (£9.747M) and revenue expenditure funded from capital (£963,000).

	2012/13 £'000	2013/14 £'000
Opening Capital Financing Requirement	(660)	(660)
Capital Expenditure		
Property, Plant & Equipment	1,923	3,159
Investment Property	3	6,551
Intangible Assets	67	37
Revenue Expenditure Funded from Capital Under Statute	1,632	963
Sources of Finance		
Capital Receipts	(1,895)	(7,281)
Government Grants and Other Contributions	(722)	(699)
Contributions from Revenue / Reserves	(1,008)	(2,730)
Closing Capital Finance Requirement	(660)	(660)

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

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

	2013/14 Long-Term Assets £'000	2013/14 Revenue Expenditure Funded From Capital £'000	2013/14 Total £'000
Community & Leisure	234	124	358
Environmental	1,584	0	1,584
Estates	7,211	2	7,213
Housing & Env. Health	0	837	837
IT	101	0	101
Planning Policy & Transport	617	0	617
Total Expenditure	9,747	963	10,710

21. Cash and Cash Equivalents

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

	2012/13	2013/14
	£'000	£'000
Cash held by the Council	5	5
Bank Current Accounts	(200)	366
Short-term deposits	12,301	9,577
Total Cash & Cash Equivalents	12,106	9,948

22. Analysis of Debtors

	2012/13	2013/14		
		Debtor	Bad Debt Allowance	Net
	£'000	£'000	£'000	£'000
Central Government Bodies	2,541	589	0	589
Sundry Debtors	2,862	5,974	(1,506)	4,468
Collection Fund	167	1,681	(510)	1,171
Housing	7	63	(56)	7
Car Leasing and Loans	140	136	(14)	122
Total Debtors	5,717	8,443	(2,086)	6,357

Included within car leasing and loans above are loans to employees for vehicle purchases. At 31st March 2014, £106,000 (2012/13 - £136,000) was outstanding.

23. Analysis of Creditors

	2012/13	2013/14
	£'000	£'000
Sundry Creditors	4,494	4,926
Collection Fund	741	2,258
Central Government	151	1,775
Section 106 Balances	3,826	4,166
Compensated Absences Accrual	182	193
Finance Lease Creditors due in less than 1 year	78	43
Total Creditors	9,472	13,361

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

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

	2012/13	2013/14
	£'000	£'000
Open Spaces / Recreation	2,403	2,722
Highways / Cycle Routes / Green Travel	427	423
Affordable Housing	226	226
Education & Skills' Development	383	328
Public Art	230	285
Other	157	182
Total Section 106 balances	3,826	4,166

24. Provisions

The full balance of provisions shown on the Balance Sheet (£1.454M) represents the Council's expected share of backdated business rates appeals that are expected to be awarded in future years. It is not possible to determine when appeals will be settled; therefore the whole balance is shown in current liabilities.

The provision was calculated using information provided by the Valuation Office as at 31st March 2014 and took into account appeals lodged against the 2005 and 2010 ratings' lists.

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

25. Trust Funds

The Council operates a number of trusts for civic purposes. The balances at the end of the year were £102,000 (2012/13 £90,000). The most significant balance is in respect of the Romsey Walk and Pleasure Ground - £87,000 (2012/13 - £87,000).

26. Notes to the Cash Flow Statement

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

Other Non-Cash items	2012/13	2013/14
	£'000	£'000
Movement in Bad Debt Allowance	(74)	(612)
Movement in provision in respect of Business Rates appeals	0	(1,454)
Other non-cash items	32	43
Other Non-Cash items	(42)	(2,023)

Other income / (payments) for financing activities	2012/13	2013/14
	£'000	£'000
Movement in Council Tax debtors	(30)	6
Movement in amounts owed to Council Tax preceptors	14	37
Movement in Government debtor for business rates	(847)	2,072
Movement in Business Rates debtors	0	(1,343)
Movement in amounts owed to Business Rates preceptors	0	1,058
Other income / (payments) for financing activities	(863)	1,830

27. Usable Reserves

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

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

Reserve	2012/13	2013/14
	£'000	£'000
General Fund Balance	2,000	2,000
Revenue & Earmarked Reserves	11,649	13,039
Capital Receipts Reserve	34,349	28,319
Total Usable Reserves	47,998	43,358

General Fund Balance

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

Revenue & Earmarked Reserves

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

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

	Balance as at 31/03/2012	Transfers In 2012/13	Transfers Out 2012/13	Balance as at 31/03/2013	Transfers In 2013/14	Transfers Out 2013/14	Balance as at 31/03/2014
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Income Equalisation Reserve	600	0	0	600	0	(245)	355
Budget Equalisation Reserve	1,225	0	(161)	1,064	5	(434)	635
Investment Equalisation Reserve	600	0	0	600	0	(108)	492
Pension Equalisation Reserve	200	0	0	200	0	0	200
Collection Fund Equalisation Reserve	0	0	0	0	241	0	241
Capacity Building Reserve	203	0	(91)	112	5	0	117
Special Projects Reserve	130	0	(50)	80	35	0	115
New Homes' Bonus Reserve	480	799	(19)	1,260	1,676	(309)	2,627
Asset Management Plan	1,178	520	(274)	1,424	4,067	(2,502)	2,989
Vehicles and Equipment Replacement Reserve	982	567	(438)	1,111	0	(1,111)	0
Budget Carry Forward Reserve	105	104	(105)	104	192	(104)	192
Local Authority Business Growth Incentive	188	0	(101)	87	0	(2)	85
Borough Election Reserve	85	0	0	85	0	0	85
All Risks Self-Insurance Reserve	152	0	0	152	0	0	152
Business Support (Floods)	0	0	0	0	343	0	343
Planning Delivery Grant Reserve	274	0	0	274	0	(274)	0
Local Development Framework Reserve	414	0	(19)	395	0	(120)	275
Waste Performance & Efficiency Grant	108	0	(14)	94	0	0	94
Benefit reform reserve	46	56	0	102	58	0	160
Developer contribution for future years' maintenance costs	3,369	429	(248)	3,550	491	(239)	3,802
Other Earmarked Reserves	334	83	(62)	355	0	(275)	80
Total Earmarked Revenue Reserves	10,673	2,558	(1,582)	11,649	7,113	(5,723)	13,039

A number of earmarked reserves were rationalised in the budget strategy for 2014/15. In most cases the brought forward balance was consolidated into other reserves.

The most significant amount included within Other Earmarked Reserves is in respect of Housing, Health and Communities Service projects (£42,000).

The property insurance policy has an excess of £5,000 per claim. The Council self-insures 'All Risks' items for which an earmarked reserve of £152,000 (2012/13 £152,000) is set aside. In the case of car loans, the risk of default or death of the borrower is on a self-insured basis. A fund was set up to collect premiums from borrowers.

Capital Receipts Reserve

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

	2012/13		2013/14	
	£'000	£'000	£'000	£'000
Balance at start of year		35,848		34,349
Capital Receipts				
Sale of Assets	438		90	
Right to Buy Receipts	60		1,238	
		498		1,328
Capital Expenditure				
Purchase of Assets	(760)		(6,743)	
Revenue Expenditure funded from Capital Under Statute	(1,136)		(538)	
Repayment of finance lease creditor	(101)		(77)	
		(1,997)		(7,358)
Balance at end of year		34,349		28,319

28. Unusable Reserves

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

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

Reserve	2012/13	2013/14
	£'000	£'000
Revaluation Reserve	19,151	17,540
Capital Adjustment Account	112,361	123,445
Deferred Credits	7	7
Collection Fund Adjustment Account	174	15
Accumulated Absences Account	(182)	(193)
Pension Fund Reserve	(57,670)	(43,970)
Total Unusable Reserves	73,841	96,844

Deferred Credits

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

Revaluation Reserve

The balance on the Revaluation Reserve represents the unrealised gains made by the Council arising from increases in the value of its Property, Plant & Equipment. The balance is reduced when assets with accumulated gains are:

- revalued downwards or impaired and the gains are lost
- used in the provision of services and the gains are consumed through depreciation
- disposed of and the gains realised
- reclassified as investment properties.

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

	2012/13		2013/14	
	£'000	£'000	£'000	£'000
Balance at start of year		19,203		19,151
Upward revaluations of assets in the year	1,015		232	
Downward revaluations of assets in the year	(831)		(914)	
Depreciation of previous years' revaluation gains	(236)		(238)	
Reverse gains on reclassified assets	0		(691)	
		(52)		(1,611)
Balance at end of year		19,151		17,540

Capital Adjustment Account

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

	2012/13		2013/14	
	£'000	£'000	£'000	£'000
Balance at start of year		117,886		112,361
Transfer from Revaluation Reserve	236		929	
Revaluation gains / (losses) on Investment Property	(5,454)		2,839	
Assets purchased in the year	1,993		9,747	
Repayment of finance lease obligations	101		77	
Transfer from Capital Receipts Reserve	1,136		538	
		(1,988)		14,130
Disposal of assets	(409)		(6)	
Depreciation of non-current assets	(1,826)		(1,923)	
Amortisation of intangible assets	(102)		(114)	
Impairments	(64)		(465)	
Revenue expenditure funded from capital	(1,136)		(538)	
		(3,537)		(3,046)
Balance at end of year		112,361		123,445

Collection Fund Adjustment Account

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

This account shows the Council's share of the accumulated difference between the estimated and actual returns in the Collection Fund (see pages 60 to 62).

The surplus on the Council Tax part of the Collection Fund at 31st March 2014 was £1.652M, of which the Council's share is £185,000. The deficit in respect of business rates was £424,000 of which the Council's share was £170,000.

	2012/13	2013/14
	£'000	£'000
Share of Council Tax Surplus b/f	174	174
Movement in the year	0	11
Share of Council Tax Surplus c/f	174	185
Share of Business Rates' Surplus b/f	0	0
Movement in the year	0	(170)
Share of Business Rates' Deficit c/f	0	(170)
Balance on Collection Fund Adjustment Account c/f	174	15

Accumulated Absences Account

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

Pension Fund Reserve

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

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

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

The transactions relating to the Council's pension liability are shown in more detail in note 13.

29. Net Assets Employed

The net assets (total assets less liabilities) of the Council in total are £140.202M (2012/13 £121.839M). This represents the total equity of the Council.

The net assets figure is net of the deficit on the pension fund of £43.970M (see note 13 above). Without this provision the Council's net assets would be £184.172M (2012/13 £179.509M).

The effect of the pensions reserve is to reduce the Council's net worth by 23.87% (2012/13 - 32.13%).

30. Financial Instruments

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

During the year all investment funds were managed internally.

Income earned on the Council's investments is credited to the Financing and Investment Income and Expenditure section of the Comprehensive Income & Expenditure Statement. This totalled £554,000 (2012/13 £631,000). The difference between this figure and the income shown on the Comprehensive Income & Expenditure Statement relates to other non-investment based income received in the year of £3,000.

The investment structure is based entirely on cash deposits over varying terms of maturity. At the Balance Sheet date the Council had investments (fixed-term deposits and call accounts) of £51.605M (2012/13 £52.177M), plus accrued interest of £118,000 (2012/13 £140,000).

Financial Instrument Balances

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

	31st March 2013		31st March 2014	
	Current £'000	Long-Term £'000	Current £'000	Long-Term £'000
<u>Investments</u>				
Cash & Cash Equivalents	12,106	0	9,948	0
Loans and Receivables	40,041	0	42,147	0
<u>Debtors</u>				
Sundry Debtors	3,755	17	5,390	17
Housing	63	0	63	0
Car Leasing and Loans	153	0	136	0
<u>Creditors</u>				
Sundry Creditors	(3,686)	0	(3,828)	0
Finance Lease Creditors	(78)	(77)	(43)	(34)

Fair Value of Assets Carried at Amortised Cost

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

	31st March 2013		31st March 2014	
	Carrying Value	Fair Value	Carrying Value	Fair Value
	£'000	£'000	£'000	£'000
Cash	6	6	5	5
Cash Equivalents	12,100	12,100	9,943	9,943
Deposits with banks and building societies	40,041	40,087	42,147	42,167
Total	52,147	52,193	52,095	52,115

The fair value is higher than the carrying amount because the Council's portfolio of investments includes a number of fixed rate loans where the interest rate receivable is higher than the rates available for similar loans at the Balance Sheet date. This shows a notional future gain (based on economic conditions at 31st March 2014) attributable to the commitment to receive interest above market rates.

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

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

	2012/13	2013/14
	£'000	£'000
Temporary Investments Brought forward	50,490	40,041
Investments returned in the year	(96,381)	(54,558)
Investments purchased in the year	86,122	56,721
Accrued interest at start of year	(330)	(140)
Accrued interest at end of year	140	83
Temporary Investments Carried Forward	40,041	42,147

31. Nature and Extent of Risks Arising From Financial Instruments

Liquidity Risk

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

Market Risk

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

Credit Risk

Credit risk arises from the short-term lending of surplus funds to banks and building societies as well as credit exposures to the Council's customers. It is the policy of the Council to place deposits only with a limited number of institutions that meet strict criteria as defined in the Council's Treasury Management Strategy (Cabinet February 2013). The Council also had a policy throughout the year of limiting deposits with institutions to a maximum of the lower of £20M or 20% of the portfolio size.

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

	Amount at 31st March 2014	Historical Experience of Default	Historical Experience Adjusted for Market Conditions	Estimated Maximum Exposure to Default
	£'000	%	%	£'000
Deposits with Banks and Building Societies	51,724	0.0	0.0	0
Debtors				
Long Term Debtors	17	0.0	0.0	0
Sundry Debtors	5,390	27.9	27.9	1,506
Housing Debtors	63	88.9	88.9	56
Other Debtors	136	10.3	10.3	14
Total	57,330			1,576

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

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

	31st March 2013	31st March 2014
	£'000	£'000
Less than three months	330	390
Three months to one year	144	54
More than one year	387	324
Total	861	768

Foreign Exchange Risk

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

32. Related Party Transactions

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

Central Government has effective control over the general operations of the Council – it is responsible for providing the statutory framework within which the Council operates, provides significant funding in the form of grants and prescribes the terms of many of the transactions that the Council has with other parties. Grants received from Government departments are set out in more detail in note 8.

Members of the Council have direct control over the Council's financial and operating policies. The amount paid to Councillors is disclosed in note 11. All 48 Councillors, non-Council members and Heads of Service have confirmed that they have not had material transactions with the Council during the financial year.

During 2013/14 £291,000 (2012/13 £339,000) in grants was paid to voluntary organisations in which six Councillors were officially appointed. The grants were made with proper consideration of declarations of interest. The relevant Members did not take part in any discussion or decision relating to the grants. The most significant of these grants are reported annually to Cabinet prior to the start of the financial year.

33. Group Accounts

For 2013/14 it is not considered that there are any bodies that meet the requirements for Group Accounting and as such these accounts solely represent Test Valley Borough Council's transactions and balances in the year.

34. Contingent Assets

As part of the Large Scale Voluntary Transfer Agreement (LSVT), the Council is entitled to receive income generated from Right-to-Buy sales of former Council properties. In 2013/14 the income generated from this source was £1.238M (2012/13 £60,000). The generation of this income is outside of the Council's control and is not quantifiable for future years.

35. Contingent Liabilities

Large Scale Voluntary Transfer

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

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

Testway Housing has since merged with two other Housing Associations to form a new company – Aster Communities. At the time of the merger in 2011 the Council re-

affirmed its commitment in respect of this guarantee. At that time the guarantee related to 63 staff (11 active members and 52 deferred pensioners).

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

Municipal Mutual Insurance Ltd – Scheme of Arrangement

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

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

On 13th May 2013, the Scheme Administrator estimated that an initial Levy of 15% of the maximum liability (£46,000) would be applicable to the Council; this was paid in 2013/14 and is shown in non-distributed costs in the Comprehensive Income and Expenditure Statement. No indications have been given as to whether further levies will be necessary. The Council's maximum remaining liability is £258,000.

36. Events After the Balance Sheet Date

The Council approved the disposal of the former Duttons Road offices on 17th April 2013. At the balance sheet date there were a number of conditions outstanding that could have affected the completion of the sale. Accordingly the offices were valued in the accounts as office space.

Since the year end, those conditions have been met which means that a sale is now more likely than not. It is expected that the eventual proceeds will be materially more than the value included in the accounts. As the sale was still to be completed at the date the accounts were authorised for issue, this is considered to be a non-adjusting post balance sheet event. Any difference between the carrying value and actual proceeds will be reflected in the 2014/15 accounts, should a sale be completed.

37. Date Accounts Authorised for Issue

The pre-audited Statement of Accounts was authorised for issue by the Head of Finance on 30th June 2014.

The audited Statement of Accounts was approved by the General Purposes Committee on 24th September 2014.

THE COLLECTION FUND

This account reflects the statutory requirement for billing authorities to maintain a separate Collection Fund which shows the transactions of the billing authority in relation to the collection from taxpayers and distribution to local authorities and the government of Council Tax and Business Rates.

INCOME AND EXPENDITURE ACCOUNT					
		2012/13		2013/14	
		£'000	£'000	£'000	£'000
COUNCIL TAX					
Opening Balance			1,601		1,579
Income	Council Tax	60,192		62,014	
	Transfers from General Fund				
	Council Tax Benefits	5,462		0	
Total Income			65,654		62,014
Expenditure					
	Hampshire County Council	48,057		44,986	
	Hampshire Fire Authority	2,842		2,660	
	Hampshire Police Authority	6,772		6,556	
	Test Valley Borough Council	5,942		5,761	
	Parishes	1,085		1,044	
	Payments to preceptors in respect of previous surpluses	737		864	
		65,435		61,871	
	Bad & Doubtful Debts Written Off	90		70	
	Increase in Bad debt Allowance	151		0	
		241		70	
Total Expenditure			65,676		61,941
Council Tax Surplus / (Deficit) For The Year			(22)		73
Closing Balance			1,579		1,652
BUSINESS RATES					
Opening Balance			0		0
Income	Business Ratepayers		45,284		48,224
Expenditure					
	Central Government	0		22,232	
	Hampshire County Council	0		4,001	
	Hampshire Fire Authority	0		445	
	Test Valley Borough Council	0		17,786	
	Net Payment to the National Pool	45,101		0	
	Provision for backdated appeals	0		3,635	
	Transitional Protection Payments	0		166	
	Bad & Doubtful Debts Written Off	0		402	
	Reduction in Bad Debt Allowance	0		(203)	
	Cost of Collection Allowance	183		184	
Total Expenditure			45,284		48,648
Business Rates' Deficit For The Year			0		(424)
Closing Balance			0		(424)
COLLECTION FUND SUMMARY					
Surplus / (Deficit) for the year			(22)		(351)
Balance at the start of the year			1,601		1,579
Surplus at the end of year			1,579		1,228

NOTES TO THE COLLECTION FUND

The starting point for the income from Business Ratepayers is the Rateable Value of each hereditament multiplied by the (national) Business Rating Multiplier for the year, which was 47.1p in 2013/14.

Net income is derived following adjustments in respect of:

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

The total non-domestic rateable value at the 31st March 2014 was £119,312,122.

The income from Council Tax is directly linked to the banding of properties based on their valuations. The number of chargeable dwellings in each valuation band was converted to an equivalent number of Band D dwellings, which was used to calculate the Council Tax base of 43,344 for 2013/14.

The Collection Fund balance on the 31st March 2014 in respect of Council Tax was a surplus of £1.652M which is included within the Balance Sheet. Amounts in respect of Test Valley Borough Council are contained within the reserves section of the Balance Sheet; amounts due to the other major preceptors are shown within creditors.

The surplus will be shared amongst the major preceptors (Test Valley's share is 11.19%) and will be included in the Council Tax calculations for 2014/15 and 2015/16.

Major Preceptors on the Collection Fund				
2012/13		2013/14		
Total		Precept	Share of 31/03/13 Surplus	Total
£'000		£'000	£'000	£'000
48,605	Hampshire County Council	44,986	642	45,628
2,874	Hampshire Fire Authority	2,660	38	2,698
6,849	Hampshire Police Authority	6,556	90	6,646
6,022	Test Valley Borough Council	5,761	94	5,855
64,350	Total	59,963	864	60,827

COUNCIL TAX BASE - ANALYSIS OF PROPERTIES

BAND	A*	A	B	C	D	E	F	G	H	TOTAL
Full Charge	0	1,253	4,503	9,222	6,938	6,352	3,856	2,981	426	35,531
10% Discount	0	0	0	0	0	0	0	0	0	0
25% Discount	0	1,377	3,823	4,021	2,311	1,455	659	456	30	14,132
50% Discount	0	8	11	7	3	5	19	19	2	74
100% Exempt	0	163	144	585	246	131	82	61	6	1,418
50% Premium	0	10	7	8	11	6	2	2	0	46
Net Adjustment for Properties Charged at a Lower Band	1	20	75	(35)	(7)	(16)	4	(27)	(15)	0
Total Number of Properties	1	2,831	8,563	13,808	9,502	7,933	4,622	3,492	449	51,201
Chargeable Number of Properties	1	2,495	8,268	12,630	8,999	7,665	4,456	3,368	437	48,319
Equivalent Number of Properties after discounts, exemptions, premiums and disabled relief	1	2,152	7,310	11,625	8,425	7,302	4,283	3,246	428	44,772
Ratio to Band D	5/9	6/9	7/9	8/9	1	11/9	13/9	15/9	2	
Band D Equivalents	1	1,434	5,686	10,333	8,425	8,925	6,187	5,410	856	47,257
Provision for Council Tax Support										(4,099)
Provision for Bad Debts										(430)
Crown Contributions										616
Total Band D Equivalents										43,344

GLOSSARY OF TERMS

Accounting Period	The period of time covered by the accounts, normally a period of twelve months, commencing on 1 st April for local authority accounts.
Accruals	This is the accounting concept that income and expenditure are recorded as they are earned or incurred, rather than when money is received or paid.
Actuarial Gains & Losses	Actuaries assess financial and non-financial information provided by the Council to project levels of future pension fund requirements. Changes in actuarial deficits or surpluses can arise leading to a loss or gain because: - events have not coincided with the actuarial assumptions made for the last valuation (experience gains and losses) - the actuarial assumptions have changed.
Assets	Items of worth which are measurable in terms of value.
Bad Debt Allowance	An allowance that is made against income that is due to the Council that it is considered is unlikely to be recovered.
Current assets	Assets which may change in value on a day to day basis (e.g. stocks), or which are expected to be fully recovered within one year (e.g. short-term deposits with banks).
Balances	The reserves of the Council, both revenue and capital, which represent the accumulated surplus of income over expenditure on any of the funds.
Business Rates	Businesses pay Business Rates instead of Council Tax. Each year, the Government sets the charge based on a fixed percentage of the business's rateable value, and the charge is collected by the Council. Since 1 st April 2013, the Council retains a proportion of the rates collected.
Capital Expenditure	Expenditure on the acquisition or improvement of tangible assets which yield benefits to the Council for more than one year.
Capital Receipts	Monies received from the sale of non-current assets, which may be used to finance new capital expenditure.
Cash and Cash Equivalents	Cash and deposits held in banks that are readily convertible into known amounts of money without penalty or time delays.
Collection Fund	This is a statutory fund separate from the main accounts of the Council. It records all income due from Council Tax and Business Rates. It shows all precepts and statutory payments to other bodies.
Contingent Assets	Future income owed to the Council arising from a past event for which the amounts cannot be accurately quantified at the balance sheet date.
Contingent Liabilities	Amounts potentially payable to individuals or organisations which may arise in the future but which at this time cannot be determined accurately.
Contingent Rent	A rent income that is based on performance. This could be as a % of turnover of net profit.
Creditors	Amounts owed by the Council for work done, goods received or services rendered within the accounting period, but for which payment was not made by the year end.
Current Service Cost	The increase in the present value of the pension scheme liabilities expected to arise from employee service in the current period.
Debtors	Amounts owed for work or services rendered by the Council within the financial year which were not paid by the year end.
Depreciated Replacement Cost	A valuation method used as a proxy for market value of assets of a specialised nature where no market exists to gauge fair value. It is based on the estimated cost to replace the asset less an allowance for the age of the asset being valued.

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

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

Test Valley Borough Council

Annual Governance Statement 2013/14

Scope of responsibility

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

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

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

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

The purpose of the governance framework

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

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

The governance framework has been in place at the Council for the year ended 31 March 2014 and will continue to be developed during the coming year.

The governance framework

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

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

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

- The Council has a clear vision of its purpose and desired outcomes for the short, medium and long term. These are encapsulated in its Corporate Plan through a range of corporate and service strategies and through four areas of focus as part of the Council's commitment to the Test Valley Partnership. There has been considerable consultation and stakeholder involvement in the development and progression of these plans and strategies and they are made available to the public through a variety of means including the Council's website and Test Valley News.
- The Council has developed a Corporate Plan for 2011 / 2015 "Doing things differently" which was approved by the Council's Cabinet on 13/04/2011. It has four main aims with a clear action plan detailing how these aims will be delivered. It is supported by a performance management framework (including performance indicators) to measure progress. In developing the plan previous priorities were reviewed, extensive consultation was undertaken with local people and elected Councillors whilst also considering external influences on the borough such as government policy. This is the last year of the current plan and the Council has started preparatory work to ensure a new plan is in place for 2015.

- The Council formally reviews its progress and performance against its corporate priorities through an Annual Corporate Action Plan Report which is presented to Overview and Scrutiny Committee (OSCOM) and the Cabinet. The four lead Members of OSCOM each have responsibility for a Corporate Plan Priority. Once an area for review has been identified, the Lead Member gives a presentation to the full committee seeking contributions to the scope of the review. A full report, presented by the Portfolio Holder, is then subsequently presented to the Committee. This has ensured the introduction of more effective and focused reviews.
- Task and Finish Panels also continue to be an option for OSCOM to perform scrutiny as and when required. In addition, there are standing panels; the Audit Panel, the Budget Panel and the Economic Panel which meet regularly throughout the year and cover scrutiny of all the financial activities of the Council. The standing panels report to OSCOM on a regular basis and bring any issues of concern to the attention of the Committee.
- Two key strategic partnerships have historically existed in the Borough, namely the Test Valley Partnership (the Local Strategic Partnership) and the Test Valley Community Safety Partnership. The national and local level environment in which both operate has changed considerably since their initial creation. In order to improve efficiency and effectiveness both bodies agreed to come together as one body. This is assisting partners in establishing a single strategic direction, ensuring statutory requirements are met and saving partners time in attending different Board meetings. Following a stakeholder conference in July 2013, the new partnership has agreed on four key areas of focus which form the basis of the work being done together.
- The Council has in place a Medium Term Financial Strategy, updated annually, which supports the aims of the Corporate Plan.
- The quality and value for money of services provided to users is measured through the Authority's performance management system. This includes the measurement and review of performance against national and local performance indicators and actions taken to address areas for improvement. Performance is monitored regularly throughout the year by Performance Boards.
- The roles of the Cabinet, OSCOM, and other committees of the Council as well as specific roles assigned to the Leader, Deputy Leader, Portfolio Holders and senior officers of the Council are defined and documented within the Council's Constitution. The Constitution also clearly identifies the powers, duties and responsibilities delegated to the Deputy Leader, Portfolio Holders and Officers, and includes rules for how Council and committee meetings should operate and the relationship between Members and Officers.

- The conduct of Members and Officers is regulated by separate codes of conduct within the Council's Constitution. The Council's General Purposes Committee together with the Ethics Sub-Committee promote high standards of conduct by Members and consider complaints made against Members. A comprehensive set of Human Resources policies ensures compliance with employment legislation and promotes good personnel practices. These include disciplinary and capability processes to deal with conduct or performance which is unacceptable. These policies and procedures are regularly reviewed and revised.
- The conduct of day to day Council business is regulated through policies and procedures such as Contract Standing Orders and Financial Regulations. These accord with good professional practice and were fully revised in 2012. The delegations to Members and Officers are kept continually under review and revised as appropriate.
- Elected members and all officers are aware of their obligations under equality legislation, as well as the standards of behaviour and language which are expected from representatives and employees of the Council. Equality impact assessments are an important and integral part of the Council's decision-making process. In March 2012, the Council published its Corporate Equalities Objectives for 2012-2016. It has two main objectives: (a) To improve the Council's evidence-base in respect of residents and staff and (b) To make sure that residents can have involvement in how we develop and deliver our services.
- Section 11 of the Children Act 2004 places key responsibilities on district councils (as a statutory partner) with regard to safeguarding children and young people. No Secrets 2000 and The Vulnerable Groups Act 2006 also place an obligation on the Council, as a partner agency working with vulnerable adults, to ensure that it pays due regard to their safeguarding. As a result, the Council has adopted a Safeguarding Children and Vulnerable Adults Policy to help ensure its compliance with these duties. Every two years, as a statutory partner of the Hampshire Safeguarding Children's Board (HSCB), the Council is required to complete a Section 11 audit as a self-assessment tool to indicate the position in respect of its safeguarding duties. The 2012 Audit identified that Test Valley Borough Council is compliant with Section 11 of the Children Act. It also recognised the Council's good practice in sustaining compliance over the last two years..
- The Council's approach to risk management is outlined in its Risk Management Strategy. Corporate risks are reviewed on a quarterly basis and progress in managing the corporate risk register is reported to OSCOM on an annual basis. The Economic Portfolio Holder is the Council's Member Champion for risk management and risk management is embedded within the Council's processes e.g. reports to decision-making committees (Cabinet and General Purposes) use a template which includes a section on risk assessment which must be completed before the report can be considered.

- The Council’s OSCOM Audit Panel meets quarterly to undertake the core functions of an “audit committee”. The terms of reference for the Audit Panel include:

Audit Activity

- To consider the Internal Audit Partnership Manager’s annual report and opinion, and a summary of internal audit activity (actual and proposed) and the level of assurance it can give over the Council’s corporate governance arrangements.
- To consider summaries of specific internal audit reports as requested.
- To consider reports dealing with the management and performance of the providers of internal audit services.
- To consider a report from internal audit on agreed recommendations not implemented within a reasonable timescale.
- To consider the external auditor’s annual letter, relevant reports, and the report to those charged with governance.
- To consider specific reports as agreed with the external auditor.
- To comment on the scope and depth of external audit work and to ensure it gives value for money.
- To commission work from internal and external audit.

Regulatory Framework

- To maintain an overview of the Council’s constitution in respect of contract standing orders, financial regulations and codes of conduct and behaviour.
 - To review any issue referred to it by the chief executive or a director, or any Council body.
 - To monitor the effective development and operation of risk management and corporate governance in the Council.
 - To monitor Council policies on whistleblowing and the anti-fraud, anti-corruption and anti-bribery strategies and the Council’s complaints process.
 - To oversee the production of the authority’s Annual Governance Statement and to recommend its adoption.
 - To consider the Council’s arrangements for corporate governance and agreeing necessary actions to ensure compliance with best practice.
 - To consider the Council’s compliance with its own and other published standards and controls.
- The Chief Executive is the Council’s Head of Paid Service and has overall corporate management and operational responsibility for the way in which the Council delivers its services. The Head of Legal and Democratic Services is designated as the Council’s Monitoring Officer and is responsible for ensuring that the Council complies with relevant laws and regulations and internal policies such as Contract Standing Orders. The Head of Finance is designated as the Council’s Section 151 Officer with responsibility for ensuring the “proper administration of financial affairs”. The Head of Finance also has responsibility under section 114 of the Local Government Finance Act 1988 for reporting to the Council and the external auditor if the Council has made, or is

about to make, expenditure which is unlawful. These three statutory officers meet as necessary during the year to discuss significant corporate issues as they arise.

- The CIPFA statement on the Role of the Chief Financial Officer in Local Government (2010) requires the Chief Finance Officer to report directly to the Chief Executive and be a member of the 'Leadership Team', of equal status to other members. The Council does not strictly comply with this requirement in that the Head of Finance is not part of the Strategic Management Team (Chief Executive and two Corporate Directors) and reports to one of the Corporate Directors. However, in practice, the Head of Finance is able to report directly to the Chief Executive and Members as and when required, is a member of the Officers' Management Team, and is involved and consulted in all matters which have financial implications for the Council.
- The Council's Constitution contains a Confidential Reporting Code for Employees which safeguards "whistle-blowers" who raise legitimate concerns about the Council's actions and specifies how their concerns should be addressed. Financial Regulations require all staff to raise concerns about the use or misuse of Council resources with the Head of Finance or Internal Audit who will carry out an independent investigation of the circumstances. Internal Audit also actively encourages staff to raise matters of concern through "Speak Up" campaigns. A form is available on the Council's Intranet for staff to raise concerns (anonymously if desired) about the use of Council resources and this facility has been extended to the website so that members of the public can raise concerns in this area. The Council also has a formal complaints procedure for members of the public to raise issues, e.g. where they are dissatisfied with the service they have received, and an annual report is prepared for OSCOM summarising these complaints and how they were resolved.
- The Council has a detailed Anti-Fraud and Corruption Policy which sets out the roles, responsibilities of officers and Members and actions to be taken when fraud or corruption is discovered. In addition, an Anti-Bribery Policy has been approved to address the requirements of the Bribery Act 2010.
- The Head of Administration is responsible for identifying and providing for Members' training needs. All new Members are provided with induction training to assist them with understanding and successfully carrying out their different roles and training is provided on specific issues where appropriate e.g. planning. The Councillor Induction and Development Guide was fully revised in 2011 and is given to all Members. A number of training sessions for Members in specific roles were held during 2013. During 2013, a Members' Group, as part of the Local Government Association's "Keep it Real" programme has been working with officers to design the induction programme for 2015. This includes a brand new element that will seek to provide training and support to councillors in fulfilling their community role. All officers also

receive induction training and appropriate professional and skills training and development identified, for instance, through annual performance discussions.

- The Council has in place various channels of communication with the community and other stakeholders. The Council's Consultation Portal provides a single link to all our current 'live' consultations, giving residents the opportunity to get involved, as well as access to details of the feedback from previous consultations:
(<http://www.testvalley.gov.uk/aboutyourcouncil/consultation-portal>).
The portal also enables residents to record their satisfaction with some of our key services, such as CSU and building control. The consultation portal is supported by Community Engagement Quality Standards which provide the guiding principles that inform the way we carry out our activities to inform, involve and consult local people. The purposes of the quality standards are to support the Council in developing the most appropriate methods of engaging with local people and to ensure a consistent approach. Publications such as Test Valley News are sent to all households and the Council's website is an important source of information about the Council and its services. The Council's website has been designed to make it more accessible to residents and businesses of Test Valley and to make it easier to undertake transactions online. The Council has an External Communications Strategy, which is currently under review, and has adopted a set of Quality Standards for community engagement.
- The Council has identified its key partnerships and promotes good governance in those. The Council's Contract Standing Orders and Financial Regulations contain specific sections on partnerships and identify officer responsibilities in relation to the management and involvement in partnerships. Protocols and agreements are put in place for the management of significant partnerships.

Review of effectiveness

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

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

- Full Council is ultimately responsible for maintaining, revising and ensuring compliance with the Council's Constitution. The Head of Legal and Democratic Services reviews the Constitution at least annually to ensure that it is up to date with current legislation and best practice.

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

On the basis of Internal Audit work completed in 2013/14, the Internal Audit Partnership Manager is able to provide Substantial assurance in respect of the Council's risk management, control and governance arrangements. "Substantial Assurance" means that systems in place are generally sound, but some weaknesses have been identified which may put some of the control objectives at risk. These weaknesses have been identified and form the basis of the action plan appended to this Statement.

- The Council is regularly reviewed by the External Auditor (Ernst and Young LLP) who independently examines the Council's accounts and financial systems and who presents an [Annual Governance Report](#) to Members, the latest available covering the financial year 2012/13. This was a positive report with an unqualified opinion on the Council's accounts, system of internal control and arrangements to achieve value for money.

DECLARATION

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

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

Signed: **Signed:**

Leader of the Council

Chief Executive

Significant governance issues

Annex 1

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

Issue	Action to be Taken	Timescale	Lead Officer
The Contracts Register has not been finalised and published on the Council's web site.	Contracts Register to be finalised and procurement information published having regard to the requirements of the Local Government Transparency Code 2014.	30/06/14	Head of Finance.
Corporate and Service Business Continuity Plans are not: <ul style="list-style-type: none"> • Reviewed and updated at the same time of year. • Reviewed to consider inter-dependencies between Services. 	Management Team to look at inter-dependencies between Services at a future group session. Corporate Director (CM) & Head of Administration to scope the session which will also take on board lessons learnt from the responses to the recent flooding.	30/09/14	Head of Administration
The IT Shared Services agreement with Winchester City Council has not been formally agreed and signed.	The Shared Services agreement to be agreed and signed. (NB: this is dependent upon and awaiting agreement by WCC).	30/09/14	Corporate Director