



STATEMENT OF ACCOUNTS

2019/2020

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I NARRATIVE REPORT

I.01 INTRODUCTION

The Statement of Accounts summarises the financial performance for financial year 2019/20 and the overall financial position of the Council. This Narrative Report explains the most significant matters reported in the accounts and provides a simple summary of the Council's overall financial position.

The Statement of Accounts for 2019/20 has been prepared on an International Financial Reporting Standards (IFRS) basis. The framework within which these Accounts are prepared and published is regulated by the Chartered Institute of Public Finance and Accountancy (CIPFA).

Whilst these accounts are presented as simply as possible, the use of some technical terminology cannot be avoided. To aid a better understanding of the terminology used, a glossary of the terms is included at the end of the document. An explanation of the key financial statements including explanatory notes and other relevant supplementary information is also provided.

The key financial statements set out within this document include:

- **The Statement of Responsibilities** declares the respective responsibilities of the Council and the Head of Corporate Services and Section 151 Officer for the production of the Statement of Accounts.
- **The Expenditure and Funding Analysis** is a note to the financial statements, rather than a key statement. It shows all income and expenditure incurred by the Council throughout the year under statutory funding provisions and the adjustments that are required to these figures to produce the Comprehensive Income and Expenditure Statement under generally accepted accounting practices.
- **The Movement in Reserves Statement (MiRS)** – this Statement sets out the movement on the different reserves held by the Council which are analysed into usable and unusable reserves. It analyses the increase or decrease in net worth of the Council as a result of incurring expenses, gathering income and from movements in the fair value of the assets. It also analyses the movement between reserves in accordance with statutory provisions.
- **The Comprehensive Income and Expenditure Statement (CIES)** – this Statement brings together all the functions of the Council and summarises all the resources it has generated, consumed or set aside in providing services during the year. As such, it is intended to show the true financial position of the Council, before allowing for the concessions provided by statute to raise council tax according to different rules and the ability to divert particular expenditure to be met from capital resources.

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- **The Balance Sheet** – this records the Council’s year-end financial position. It shows the balances and reserves at the Council’s disposal, its long-term debt, net current assets or liabilities, and summarises information on the non-current assets held. Reserves are reported in two categories. The first category of reserves are usable reserves, i.e. those reserves that the Council can use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use (for example the Capital Receipts Reserve that may only be used to fund capital expenditure or repay debt). The second category of reserves is those that the Council cannot use to provide services. This category of reserves includes reserves that hold unrealised gains and losses (for example the Revaluation Reserve), where amounts would only become available to provide services if the assets are sold; and reserves that hold timing differences shown in the Movement in Reserves Statement line ‘Adjustments between accounting basis and funding basis under regulations’.
- **The Cash Flow Statement** – this summarises the inflows and outflows of cash arising from transactions with third parties for both capital and revenue.
- **Notes to the Financial Statements** – the notes provide more detail about the items contained in the key financial statements, the Council’s Accounting Policies and other information to aid the understanding of the financial statements.
- **The Collection Fund** – the Council is responsible for collecting council tax and local business rates. The proceeds of council tax are distributed to the Council, Hampshire County Council, Hampshire Police Authority, Hampshire Fire and Rescue Authority and local town/parish councils. Local business rates are distributed between the Council, the Government, Hampshire County Council and Hampshire Fire and Rescue Authority. The Fund shows the income due and application of the proceeds.

The Independent Auditor’s Report explains how the Council’s auditors, Ernst and Young LLP, 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.

I NARRATIVE REPORT

I.02 HART DISTRICT

Hart District is primarily rural, covers some 21,500 hectares (83 sq. miles) and is situated in north-east Hampshire, bordering both Surrey and Berkshire. It is a popular place to live, as it benefits from low unemployment, low crime rates and good schools. It has a healthy, active population with high participation in sports and leisure. There are approximately 95,000 residents and an estimated 36,000 homes in Hart. There is an increasing and ageing population, with the number of residents expected to rise to 105,800 by 2024 and increases expected in older age groups in particular. The main centres of population including Fleet, Yateley and Blackwater/Hawley are in the north and east of the district and just over 30% of the population live in the rural areas.

I.03 HART DISTRICT COUNCIL

Hart District Council (“the Council”) comprises 33 Councillors who represent their 11 wards. Each ward has 3 Councillors who represent it, although once elected Councillors will make decisions for the whole district, not just for the ward they were elected for. Elections are held in 3 out of every 4 years, with one seat in each ward contested at each election. The political make-up of the Council is currently: Conservative Party 11, Community Campaign Hart 10, Liberal Democrat Party 11, and one independent councillor.

The Council is a multifunctional organisation. Its policies are directed by the political leadership and implemented by the Officers of the Council. The Council has adopted the Leader and Cabinet model as its political management structure. The Leader of the Council has responsibility for the appointment of members of the Cabinet, the allocation of Portfolios and the delegation of Executive Functions. Cabinet Members are held to account by a system of scrutiny.

Supporting the work of Councillors is the organisational structure of the Council headed by the Joint Chief Executives, who are supported by four Heads of Service.

During the year the Council establishment was 103 full-time equivalent employees. Most services are outsourced or shared with other councils.

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I.04 CORPORATE STRATEGY

The Council has adopted a 5-year Corporate Plan for the period 2017-2022. It provides a focus for our activities and services and will inform decision making and allocation of resources across the Council. The Corporate Plan is centred around four priorities:

- A Thriving Local Economy
- A Clean, Green and Safe Environment
- Healthy Communities and People
- An Efficient and Effective Council

The Corporate Plan is underpinned by a Service Plan which will run for the lifetime of the plan and be updated annually. This shows in detail how the Council will make progress against the priorities in the Corporate Plan. Each year a review is undertaken to update the Service Plan and ensure it continues to highlight the significant projects that the Council is taking forward in pursuit of its four corporate priorities.

For the 2020/21 Service Plan, measures that the Council intends to deliver include delivering the climate change action plan, delivering new ways of working, supporting local communities to have more say in the future of their area, promoting the delivery of affordable housing and infrastructure in new developments, and initiatives to ensure the Council can achieve a greater level of financial self-sustainability.

In addition to the Service Plans, new obligations were placed upon the Council on the 22 March 2020 which include;

- distribution of discretionary business grants,
- support to the shielding and extremely vulnerable
- distribution of the hardship fund and emergency discharge from hospital
- providing support for businesses, including those moving to new takeaway services
- reopening of the high streets and ensuring safe spacing
- increased requirements to ensure no rough sleepers and increased communication requirements as part of the Council's statutory duties to "warn and inform"

I NARRATIVE REPORT

Achievements in 2019/20

The Council has made progress in a number of areas over the 2019/20 financial year. The majority relate to activities committed to in the 2017 – 2022 Corporate Plan, although it has also taken advantage of opportunities that have arisen throughout the year.

Achievements include:

- Launched our new vision for 2040
- Transitioned our Payroll and HR in-house from our outsourced provider
- Opened a brand new country park at Edenbrook
- Secured £4.3m funding for a link between Fleet Railway Station, Fleet Pond and Hartland Village
- Started a £400k refurbishment of Frogmore Leisure Centre
- Received the Gold Stray Dogs Footprint Award, from the RSPCA, for the 8th year

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I.05 FINANCIAL PERFORMANCE – REVENUE

The Council's actual outturn for 2019/20 was a net nil spend after accruals, carry forwards and transfers to reserves.

Revenue Budget Outturn	Approved Budget	Actual Expenditure	Variance
	2019/20	2019/20	2019/20
	£000	£000	£000
Corporate Services	4,899	4,656	(243)
Customer Services	990	528	(462)
Place Services	1,610	1,543	(67)
Environment & Technical	2,327	2,256	(71)
Total Net Service Expenditure	9,826	8,983	(843)
Debt Interest and MRP	457	457	0
New Homes Bonus	(2,283)	(2,283)	0
	8,000	7,157	(843)

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I.06 CAPITAL BUDGET

The overall performance against the 2019/20 capital budget is shown in the table below:

Area	Approved Budget 2019/20 £000	Actual Expenditure 2019/20 £000	Variance 2019/20 £000
Corporate Services	497	7,406	6,909
Community Place	530 0	1,256 40	726 40
Environment and Technical	2,724	581	(2,143)
	<u>3,751</u>	<u>9,283</u>	<u>5,532</u>

The significant capital expenditure in 2019/20 was on Investment Property and Office premises in Hedge End. This expenditure was subject to further budget approval in year. Disabled Facilities Expenditure is within Community Services and also makes up a large area of expenditure and increased expenditure in this area was subject to further budget approval.

The main areas of variation contributing to the overall Net Overspend were as follows:

Corporate Services

The significant variation is due to the deposit paid on the commercial development at Edenbrook and the purchase of the Pavilion offices in Southampton.

Community Services

The variation in expenditure is due to over performance on the delivery of Disabled Facilities grant. This was expected and was funded by previous year's carry forward creating an earmarked reserve.

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Place Services

During the year, an opportunity was provided to purchase the MFDs (multi-functional devices for scanning, photocopying, and printing) rather than leasing. A value for money decision demonstrated it was better value to purchase.

Environment and Technical Services

There is a significant underspend of £2.1m in this service area. Most of this underspend is made up of four key projects:

- Bramshot Country Park underspent by £1,044k due to delays in delivery caused by adverse weather.
- A budget of £220k was provided for waste vehicles which was not spent in year.
- There were delays in delivering the Edenbrook Skate and Bike Part which had a £220k budget allocated to it.
- Budgets were set aside to deliver £268k of works which will now be delivered as part of the Green corridor project so were not delivered in year.

The capital programme for 2019/20 was financed as follows:

Financed By	2019/20 £000
Unfinanced capital spend	7,587
Government Grants	1,346
Direct Revenue Contributions	21
Usable Capital Receipts / Earmarked Reserves	329
	9,283

I.07 PENSION LIABILITY

The application of International Accounting Standard (IAS) 19 has resulted in a pension liability of £27.88m shown in the Balance Sheet, an increase of £3.03m in the year.

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The liability represents our share of the liability to Hampshire County Council's Pension Fund. This amount is matched by a Pensions Reserve also shown on the Balance Sheet and therefore has no immediate impact on the Council's overall financial position and its General Fund Balances (small differences may arise over the balance sheet date due to accruals being made for invoices not yet received).

Further details are set out in the Accounting Policies and Pension Note (Note 5.15).

IAS19 does not directly impact on the actual level of employer contributions paid to the Hampshire County Council Fund. Employers' levels of contributions are determined by triennial actuarial valuations which are based on the Fund's actual investment strategy (rather than being based on corporate bond yields).

The movement to the Fund is set out in more detail in note 5.15. The total liability has an impact on the net worth of the Council as recorded in the Balance Sheet. However, statutory arrangements for funding the deficit mean that the financial position of the council remains sound. The deficit on the scheme will be recovered through increased contributions over the remaining life of the employees as assessed by the actuary.

I.08 FINANCIAL OUTLOOK

The Council has not received Revenue Support Grant from 2018/19. It is uncertain whether the Council will be able to achieve substantial increases in Non-Domestic Rates once 75% retention is introduced as commercial development on a large scale is not anticipated. New Homes Bonus funding is also likely to reduce significantly.

The Council was previously reliant on continuing housing development is likely leading to substantial increases in the council tax base and income from the leisure outsourcing contract and commercial income to balance its medium term financial position. Following Covid-19 each of these income streams contain an element of uncertainty. However, in the medium term the Council has sufficient reserves in place to deal with income shortfalls. However, the long term financial sustainability of the Council relies on recovery to pre-Covid income levels to enable the Council to become self-sufficient.

The Covid-19 outbreak will have a significant financial impact on the council in 2020/21 and the recovery will take place over a number of years. The financial implications of the council's recovery plan will not be fully understood. The council began to experience the impact of the outbreak in March 2020 when a number of front-line service facilities were closed and supplier relief began to be provided to key contractors. There has been an increase in claims for Local Council Tax Support and an expected reduction in business rate income due to business closures. Consequently, the council will suffer significant reductions in income in 2020/21 and beyond. The council's spending has also significantly increased to cope with the outbreak. Whilst some Covid-19 financial support has been received from government, it is unclear as to the extent to which

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all of the cost pressures and reductions in income will be reimbursed. This represents a financial risk to the council that will form part of future medium term financial planning.

It should be noted that there is considerable uncertainty nationally about local government finance levels from 2021/22, as a Fair Funding Review is currently under way which may lead to significant changes in the distribution of funding between council tiers.

Medium Term Financial Plan

The Medium Term Financial Plan (MTFP) is based on an analysis of the key influences on the Council's future financial position and an assessment of the main financial risks facing the Council. The financial forecast set out in the table below models income and expenditure and resources available over the next four years, and is considered to be the most likely outcome based on forecasts and assumptions for pay and price inflation, etc.

Given the uncertainty referred to above, the council continually models a range of MTFP scenarios. These are updated as more information becomes available or assumptions change.

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Medium Term Financial Plan	2020/21	2021/22	2022/23
	£'000	£000	£000
Net Costs of Services	10,189	10,394	10,600
Debt Interest	12	12	12
New Homes Bonus	(2,200)	(1,171)	(505)
Net Budget Requirement	8,001	9,235	10,107
Retained Business Rates	(1,280)	(1,320)	(1,360)
Revenue Support Grant	0	0	0
Collection Fund surplus/deficit	0	0	0
NNDR Reserve	0	0	0
Council Tax Income	(7,083)	(7,362)	(7,648)
Council Tax Increase	(203)	(205)	(205)
SI06 Receipts	(53)	(53)	(53)
SANG Receipts	(220)	(220)	(220)
Commercial Income Target	(0)	(544)	(1,090)
MRP/Loan repayments	469	469	469
To/From Reserves	(369)	0	0

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I.09 FURTHER INFORMATION

Further information about these accounts is available from:

Head of Corporate Services
Hart District Council
Civic Offices
Harlington Way
Fleet
Hampshire
GU51 4AE

Telephone: 01252 622122
Email: enquiries@hart.gov.uk

I.10 INSPECTION AND AUDIT

Interested members of the public have the statutory right to inspect these accounts before the audit is completed. For the 2019/20 accounts, the inspection period is 1 September to 14 October 2020. These dates were advertised on the Council's website.

2 STATEMENT OF RESPONSIBILITIES

2.01 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 Corporate Services, Emma Victoria Foy.
- Manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets.
- Approve the Statement of Accounts.

2.02 CHIEF FINANCE OFFICER RESPONSIBILITIES

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

In preparing this Statement of Accounts, the chief financial officer has:

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

The Section 151 Officer also:

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

2.03 CHIEF FINANCE OFFICER CERTIFICATE


I certify that the Statement of Accounts 2019/20 present a true and fair view of the financial position of the council (the Balance Sheet) and of its income and expenditure for the year ended 31 March 2020.

Signed 
Date 26.11.20

Emma Victoria Foy, FCCA
Head of Corporate Services and S151 Officer

2.04 CHAIRMAN OF AUDIT COMMITTEE CERTIFICATE

I certify that the Statement of Accounts 2019/20 has received the full approval of Members.

Signed 
Date 26/11/2020

Wendy Makepeace-Browne
Chairman, Audit Committee

3 COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

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. Councils raise taxation to cover expenditure in accordance with regulations; this may be different from the accounting cost. The taxation position is shown in both the Expenditure and Funding Analysis and the Movement in Reserves Statement.

	2018/19			2019/20			
	Note	Gross Expenditure £'000	Gross Income £'000	Net Expenditure £'000	Gross Expenditure £'000	Gross Income £'000	Net Expenditure £'000
Community Services		3,169	(7,597)	(4,428)	4,350	(3,906)	444
Corporate Services		24,806	(18,608)	6,198	23,480	(15,251)	8,229
Regulatory Services		3,362	(1,743)	1,619	3,844	(1,889)	1,955
Technical and Env. Maintenance		9,761	(7,764)	1,997	10,574	(9,961)	613
Cost of Services		41,098	(35,712)	5,386	42,248	(31,007)	11,241
Other Operating Expenditure	3.04	3,109	(98)	3,011	3,233	(90)	3,143
Financial & Investment Income	3.05	941	(367)	575	841	(364)	477
Taxation and non-specific grant income and expenditure	3.06	11,604	(25,841)	(14,237)	11,730	(26,735)	(15,005)
(Surplus) or Deficit on provision of services		56,752	(62,016)	(5,265)	58,052	(58,196)	(144)
(Surplus) or Deficit on the revaluation of property, plant and equipment assets				133			(3,554)
(Surplus)/deficit on financial assets measured at fair value through other comprehensive income				11			0
Remeasurement of the net defined benefit liability/(asset)				(2,970)			2,187
Other Comprehensive Income and Expenditure				(2,826)			(1,367)
Total Comprehensive Income and Expenditure				(8,092)			(1,511)

4 MOVEMENT IN RESERVES STATEMENT

The Movement in Reserves Statement shows the movement from the start to the end of the year on the different reserves held by the council, analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation) and other 'unusable reserves'. The Statement shows how the movements in year of the council's reserves are broken down between gains and losses incurred in accordance with generally accepted accounting practices and the statutory adjustments required to return to the amounts chargeable to council tax (or rents) for the year. The Net Increase/Decrease line shows the statutory General Fund Balance movement in the year following those adjustments. This balance includes earmarked reserves which have been segregated within the General Fund for specific projects.

2019/20	General Fund Balance	Capital Receipts Reserve	Capital Grants Unapplied Account	Total Usable Reserves	Unusable Reserves	Total Council Reserves
	£000	£000	£000	£000	£000	£000
Balance at 31 March 2019	19,220	746	9,484	29,450	1,050	30,500
Total Comprehensive Income and Expenditure	144	0	0	144	1,367	1,511
Adjustments between accounting basis and funding basis under regulation (Note 4.01)	3,192	(151)	2,050	5,091	(5,091)	0
Increase or (decrease) in year	3,336	(151)	2,050	5,235	(3,724)	1,511
Balance at 31 March 2020	22,556	595	11,534	34,685	(2,674)	32,011

4 MOVEMENT IN RESERVES STATEMENT

2018/19	General Fund Balance £000	Capital Receipts Reserve £000	Capital Grants Unapplied Account £000	Total Usable Reserves £000	Unusable Reserves £000	Total Council Reserves £000
Balance at 31 March 2018	16,732	641	9,133	26,505	(4,097)	22,408
Total Comprehensive Income and Expenditure	5,265	0	0	5,265	2,826	8,092
Adjustments between accounting basis and funding basis under regulation (Note 4.01)	(2,777)	105	352	(2,321)	2,321	0
Increase or (decrease) in year	2,488	105	352	2,945	5,147	8,092
Balance at 31 March 2019	19,220	746	9,485	29,450	1,050	30,500

5 BALANCE SHEET STATEMENT

The Balance Sheet shows the value of the assets and liabilities recognised by the council as at the balance sheet date. The net assets of the council (assets less liabilities) are matched by the reserves held by the council.

Grants received in advance are presented as a separate category of liabilities for the years ending 2019 and 2020 instead of short term creditors.

	Note	31 March 2019 £000	31 March 2020 £000
Property, Plant & Equipment	5.01		
Other land and buildings		36,835	36,307
Vehicles, plant, furniture and equipment		1,063	1,155
Infrastructure assets		201	238
Community assets		3,954	4,014
Assets under construction		0	755
Surplus assets		51	42
		42,104	42,511
Investment properties	5.02	70	6,350
Intangible assets	5.03	17	8
Long term debtors	5.05	1,321	1,254
Long Term Assets		43,512	50,123
Short term investments	5.04	12,000	11,000
Assets held for sale	5.07	88	0
Short term debtors	5.05	4,517	5,051
Cash and cash equivalents	5.06	19,261	18,760
Current Assets		35,866	34,811

	Note	31 March 2019 £000	31 March 2020 £000
Short term borrowing	5.08	(1,372)	(1,377)
Short term creditors	5.09	(5,222)	(7,247)
Provisions	5.10	(334)	(302)
Current Liabilities		(6,928)	(8,926)
Long term borrowing	5.08	(12,277)	(11,008)
Pension liability	5.15	(24,854)	(27,882)
Grants received in advance - Rev	5.17	(4,819)	(5,107)
Long Term Liabilities		(41,950)	(43,997)
Net Assets		30,500	32,011

5 BALANCE SHEET STATEMENT

	Note	31 March 2019 £000	31 March 2020 £000
Usable Reserves			
Earmarked reserves	5.11.1	13,682	16,176
General fund		5,537	6,380
Capital receipts		746	595
Capital grants unapplied		9,484	11,534
		29,450	34,685
Unusable Reserves			
Revaluation reserve	5.12.1	3,451	6,876
Capital adjustment account	5.12.3	22,564	18,588
Financial instrument adjustment account	5.12.4	23	(12)
Pension reserve	5.12.5	(24,773)	(27,803)
Collection fund	5.12.6	(167)	(255)
Accumulated absences	5.12.7	(48)	(68)
		1,050	(2,674)
Total Reserves		30,500	32,011

Reserves are reported in two categories. The first category of reserves are usable reserves, i.e. those reserves that the council may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use (for example the Capital Receipts Reserve that may only be used to fund capital expenditure or repay debt). The second category of reserves is those that the council is not able to use to provide services. This category of reserves includes reserves that hold unrealised gains and losses (for example the Revaluation Reserve), where amounts would only become available to provide services if the assets were sold; and reserves that hold timing differences shown in the Movement in Reserves Statement line 'Adjustments between accounting basis and funding basis under regulations'.

These financial statements replace the unaudited financial statements certified by Emma Foy, Head of Corporate Services and S151 Officer on 26 August 2020.

Signed *Emma Foy*..... Date *26.11.2020*.....

Emma Victoria Foy, FCCA
Head of Corporate Services and S151 Officer

6 CASHFLOW STATEMENT

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

This cash flow statement is prepared using the indirect method whereby the Surplus or Deficit on the Provision of Services is adjusted for non-cash items, removing the effects of accruals and extracting transactions relating to investing or financing activities.

	2018/19	2019/20
Note	£000	£000
Net surplus or (deficit) on the provision of services	5,265	144
Adjustments to net surplus or deficit on the provision of services for non-cash movements	3,133	6,788
Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities	(7,320)	(3,549)
Net cash flows from Operating Activities	1,078	3,383
Investing Activities	6,016	(3,230)
Financing Activities	(544)	(655)
Net increase or (decrease) in cash and cash equivalents	6,550	(502)
Cash and cash equivalents at the beginning of the reporting period	12,712	19,262
Cash and cash equivalents at the end of the reporting period	19,262	18,760

3 NOTES TO THE COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

3.01 EXPENDITURE AND FUNDING ANALYSIS

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

	2018/19		2019/20	
	Net Expenditure chargeable to the General Fund £000	Adjustments between the Funding and Accounting Basis £000	Net Expenditure in the Comprehensive Income and Expenditure Statement £000	Net Expenditure in the Comprehensive Income and Expenditure Statement £000
Community Services	778	5,206	1,637	1,193
Corporate Services	3,049	(3,149)	3,670	(4,559)
Regulatory Services	1,545	(75)	1,607	(348)
Technical and Env. Maintenance	1,539	(457)	309	(304)
Cost of Services	6,911	1,524	7,223	(4,018)
Other income and expenditure	(9,398)	1,254	(10,559)	826
(Surplus) or Deficit	(2,487)	2,778	(3,336)	(3,192)
Opening General Fund Balance	(16,733)		(19,220)	
Plus Surplus on General Fund in year	(2,487)		(3,336)	
Closing General Fund Balance	(19,220)		(22,556)	(144)

3 NOTES TO THE COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

3.02 NOTE TO THE EXPENDITURE AND FUNDING ANALYSIS

2019/20	Adjustments between Funding and Accounting Basis			
	Adjustments for Capital Purposes	Net Change for the Pensions Adjustments	Other Differences	Total Adjustments
Adjustments from General Fund to arrive at the Comprehensive Income and Expenditure Statement amounts	£000	£000	£000	£000
Community Services	1,252	(59)	0	1,193
Corporate Services	(4,430)	(122)	(7)	(4,559)
Regulatory Services	(212)	(128)	(8)	(348)
Technical and Env. Maintenance	(187)	(112)	(5)	(304)
Net Cost of Services	(3,577)	(421)	(20)	(4,018)
Other income and expenditure from the Expenditure and Funding Analysis	1,336	(422)	(88)	826
Difference between General Fund surplus or deficit and Comprehensive Income and Expenditure Statement Surplus or Deficit on the Provision of Services	(2,241)	(843)	(108)	(3,192)

3 NOTES TO THE COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

2018/19	Adjustments between Funding and Accounting Basis				
	Adjustments from General Fund to arrive at the Comprehensive Income and Expenditure Statement amounts	Adjustments for Capital Purposes	Net Change for the Pensions Adjustments	Other Differences	Total Adjustments
	£000	£000	£000	£000	£000
Community Services	5,217	(10)	(1)	5,206	
Corporate Services	(2,656)	(494)	1	(3,149)	
Regulatory Services	(53)	(20)	(2)	(75)	
Technical and Env. Maintenance	(438)	(17)	(2)	(457)	
Net Cost of Services	2,070	(541)	(5)	1,524	
Other income and expenditure from the Expenditure and Funding Analysis	1,250	(510)	513	1,254	
Difference between General Fund surplus or deficit and Comprehensive Income and Expenditure Statement Surplus or Deficit on the Provision of Services	3,320	(1,051)	508	2,778	

3 NOTES TO THE COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

Adjustments for Capital Purposes

For **Services** this column adds in depreciation, impairment and revaluations gains and losses.

Other operating expenditure – adjusts for capital disposals with a transfer of income on disposal of assets and the amounts written off for those assets.

Financing and investment income and expenditure – the statutory charges for capital financing i.e. Minimum Revenue Provision and other revenue contributions are deducted from other income and expenditure as these are not chargeable under generally accepted accounting practices.

Taxation and non-specific grant income and expenditure – capital grants are adjusted for income not chargeable under generally accepted accounting practices. Revenue grants are adjusted from those receivable in the year to those receivable without conditions or for which conditions were satisfied throughout the year. The Taxation and Non Specific Grant Income and Expenditure line is credited with capital grants receivable in the year without conditions or for which conditions were satisfied in the year

Net change for the Pensions Adjustments

Net change for the removal of pension contributions and the addition of IAS 19 Employee Benefits pension related expenditure and income:

For **services** this represents the removal of the employer pension contributions made by the authority as allowed by statute and the replacement with current service costs and past service costs.

For **Financing and investment income and expenditure** –the net interest on the defined benefit liability is charged to the CIES.

Other Differences

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

For **services** this represents the change in the accumulated absences reserve attributable to each service.

For **Financing and investment income and expenditure** the other differences column recognises adjustments to the General Fund for the timing differences for premiums and discounts.

The charge under **Taxation and non-specific grant income and expenditure** represents the difference between what is chargeable under statutory regulations for council tax and NDR that was projected to be received at the start of the year and the income recognised under generally accepted accounting practices in the Code. This is a timing difference as any difference will be brought forward in future Surpluses or Deficits on the Collection Fund.

3 NOTES TO THE COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

3.03 INCOME AND EXPENDITURE ANALYSED BY NATURE

The authority's expenditure and income is analysed as follows.

Changes on the following lines in this Note: Fees, charges and other service income and Government grants and contributions for 2018/19 are presentation adjustments only for the reclassification of Housing Benefit Subsidy Income and does not affect the final figure for the Surplus on the Provision of Services for 2018/19.

	2018/19 £'000	2019/20 £'000
Expenditure		
Employee benefits expenses	6,296	6,457
Other services expenses	30,603	30,214
Depreciation, amortisation, impairment	4,198	6,157
Interest payments	941	258
Changes in fair value of investment properties	0	3
Precepts and levies	3,109	3,233
Non-domestic rates tariff, levy and deficit charges	11,604	11,730
Total Expenditure	56,751	58,052
Income		
Fees, charges and other service income	(20,757)	(14,356)
Interest and investment income	(367)	(364)
Income from council tax and non-domestic rates	(22,929)	(23,601)
Government grants and contributions	(17,865)	(19,785)
Gain on the disposal of assets	(98)	(90)
Total Income	(62,016)	(58,196)
Surplus or Deficit on the Provision of Services	(5,265)	(144)

3 NOTES TO THE COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

3.04 OTHER OPERATING EXPENDITURE

	2018/19	2019/20
	£000	£000
Parish council precepts	3,109	3,233
(Gains)/loss on the disposal of non-current assets	(98)	(90)
	<u>3,011</u>	<u>3,143</u>

3.05 FINANCING AND INVESTMENT INCOME AND EXPENDITURE

	2018/19	2019/20
	£000	£000
Interest payable and similar charges	271	258
Net interest on the defined benefit liability	670	580
Interest receivable and similar income	(367)	(334)
(Income) and expenditure in relation to investment properties and changes in their fair value	0	(27)
	<u>575</u>	<u>477</u>

3 NOTES TO THE COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

3.06 TAXATION AND NON SPECIFIC GRANT INCOME AND EXPENDITURE

	2018/19 £000	2019/20 £000
Council tax income	(9,798)	(10,272)
Non-domestic rates income and safety net	(13,131)	(13,329)
Non-domestic rates tariff, levy and deficit charges	11,604	11,730
Non-ring fenced government grants	(2,192)	(2,344)
Capital grants and contributions	(720)	(790)
	<u>(14,237)</u>	<u>(15,005)</u>

The breakdown of 'non-ring fenced government grants' and 'capital grants and contributions' can be seen in more detail in note 3.12 Grant Income.

3.07 MATERIAL ITEMS OF INCOME AND EXPENSE

The council incurs significant expenditure through its delivery of services to the council tax payer and receives significant income from a number of sources to fund this. For example, the council incurs a significant proportion of its spend on benefit payments, which is funded predominantly by government grants. This income and expenditure is reported in the Comprehensive Income and Expenditure Statement and is supported by notes within this section.

The council does not consider that there were any other material items of income and/or expense that weren't incurred and/or received in the normal day to day provision of the services.

3 NOTES TO THE COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

3.08 AGENCY SERVICES

The council provides a number of services on behalf of Hampshire County Council. In 2019/20 the council received £134,177 for providing these services (2018/19 £155,970).

3.09 MEMBERS ALLOWANCES

The council paid the following amounts to members of the council during the year:

	2018/19 £000	2019/20 £000
Allowances	237	232
Expenses	7	7
	<u>244</u>	<u>239</u>

3 NOTES TO THE COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

3.10 OFFICERS' REMUNERATION AND TERMINATION BENEFITS

3.10.1 Remuneration

The remuneration paid to the council's senior employees is shown below.

		Salary, Fees and Allowances £	Expenses Allowances £	Pension Contributions £	Compensation on Loss of Office £	Total £
Joint Chief Executive	2019/20	98,106	3,969	15,795	0	117,870
	2018/19	96,183	3,869	14,445	0	114,497
Joint Chief Executive ***	2019/20	104,460	3,969	15,795	0	124,224
	2018/19	96,183	3,871	14,445	0	114,498
Section 151 Officer and Head of Corporate Services	2019/20	79,078	2,555	12,731	0	94,364
	2018/19	80,178	1,239	12,044	0	93,461
Head of Regulatory Services* now Place	2019/20	27,278	0	4,391	0	31,669
	2018/19	86,484	1,198	9,839	39,751	137,272
Head of Environmental and Technical Services	2019/20	69,096	3,000	10,649	0	82,745
	2018/19	67,852	3,000	10,190	0	81,042
Head of Community Services**	2019/20	69,629	1,895	11,210	0	82,734
	2018/19	59,826	1,661	9,034	0	70,521

*The previous Head of Regulatory Services left on the 31 March 2019. The new Head of Regulatory Services started in December 2019 and is now the Head of Place.

**The previous Head of Community Services left in 2018/19.

***Salary, Fees and Allowances includes allowance payable for role of returning officer during Election years.

3 NOTES TO THE COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

The council's other employees whose remuneration, excluding employer's pension contributions, was £50,000 or more in bands of £5,000 were:

	Number of Employees 2018/19	Number of Employees 2019/20
£50,000 to £54,999	2	5
£55,000 to £59,999	0	1
£60,000 to £64,999	2	1
£65,000 to £69,999	1	1
	<u>5</u>	<u>8</u>

3 NOTES TO THE COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

3.10.2 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 in the Comprehensive Income and Expenditure Statement at the earlier of when the council can no longer withdraw the offer of those benefits or when the council recognises costs for a restructuring.

The number of exit packages with total cost per band and total cost of the compulsory and other redundancies are set out in the table below:

	Number of compulsory redundancies		Number of other departures agreed		Total number of exit packages by cost band		Total cost of exit packages in each band £s	
	2018/19	2019/20	2018/19	2019/20	2018/19	2019/20	2018/19	2019/20
£0 - £20,000	0	1	0	0	0	1	0	1,824
£20,001 - £40,000	0	1	0	0	0	1	0	20,832
£40,001 - £60,000	1	0	0	0	1	0	57,024	0
	1	2	0	0	1	2	57,024	22,656

3 NOTES TO THE COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

3.11 EXTERNAL AUDIT COSTS

The council has incurred the following costs in relation to the audit of the Statement of Accounts and certification of grant claims provided by the council's external auditors, Ernst and Young LLP.

Per audited statement of accounts the audit fee for 2018/19 was £44k for the appointed auditor work and £10k for the certification of grant claims. The ISA260 report stated that the audit fees for 2018/19 would be subject to overruns and therefore the 2018/19 audit fee for 2018/19 exceeds what was disclosed last year as shown below.

	2018/19 £000	2019/20 £000
Fees payable to external auditors with regard to external audit services carried out by the appointed auditor for the year	63	41
Fees payable to external auditors for the certification of grant claims and returns for the year	12	12
	<u>75</u>	<u>53</u>

3 NOTES TO THE COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

3.12 GRANT INCOME

Grants, third party contributions and donations are recognised as due to the council when there is reasonable assurance that:

- The council will comply with the conditions attached to the payments, and
- The grants or contributions will be received.

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

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

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

3 NOTES TO THE COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

The council credited the following grants, contributions and donations to the Comprehensive Income and Expenditure Statement in 2019/20:

	2018/19 £000	2019/20 £000
Credited to Taxation and Non Specific Grant Income		
Non-ring fenced Government Grants		
New Homes Bonus	(2,148)	(2,283)
Other Non-ring fenced Government Grants	(43)	(61)
	<u>(2,192)</u>	<u>(2,344)</u>
Capital Grants and Contributions		
Developer's Leisure Contributions	(705)	(108)
Other Capital Grants and Contributions	(15)	(682)
	<u>(720)</u>	<u>(790)</u>
	<u>(2,912)</u>	<u>(3,134)</u>
Credited to Services		
Housing Benefits/Council Tax Subsidy and Grants	(14,051)	(12,608)
Disabled Facilities Grant	(685)	(739)
Welfare	(758)	(906)
Other Grants and Contributions	(432)	(2,398)
	<u>(15,925)</u>	<u>(16,651)</u>

3 NOTES TO THE COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

3.13 OPERATING LEASES

3.13.1 Council as Lessee

Leases that do not meet the definition of finance leases are accounted for as operating leases and the expenditure is charged to service revenue accounts on a straight-line basis over the term of the lease. The land and buildings elements of a lease require separate identification for both lease classifications and subsequent valuation. In most cases, the land element of a lease will be an operating lease.

The council has not entered into any operating leases to procure any property, plant, vehicles or equipment.

3.13.2 Council as Lessor

Where the council grants an operating lease over a property or an item of plant or equipment, the asset is retained in the Balance Sheet. Rental income is credited to the Financing and Investment line in the Comprehensive Income and 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.

The Council owns a number of property, plant and equipment assets that are leased to other bodies for one or a combination of the following purposes:

- To gain rental income from its investment properties

- For economic development purposes to provide suitable affordable accommodation for local businesses.

- To provide leisure facilities for public use.

3 NOTES TO THE COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

The future minimum lease payments receivable under non-cancellable leases in future years are:

	31 March 2019 £000	31 March 2020 £000
Not later than one year	(1,182)	(1,281)
Later than one year and not later than five years	(5,875)	(6,338)
Later than five years	(5,598)	(3,854)
	<u>(12,655)</u>	<u>(11,473)</u>

3.14 CONSTRUCTION CONTRACTS

At 31 March 2020 the Council had one significant contract to build 42 flats at Edenbrook with Berkeley Homes Ltd.

4 NOTES TO THE MOVEMENT IN RESERVES STATEMENT

4.01 ADJUSTMENTS BETWEEN ACCOUNTING BASIS AND FUNDING BASIS UNDER REGULATIONS

This note details the adjustments that are made to the total comprehensive income and expenditure recognised by the authority in the year in accordance with proper accounting practice to arrive at the resources that are specified by statutory provisions as being available to the authority to meet future capital and revenue expenditure. The following sets out a description of the reserves that the adjustments are made against.

General Fund Balance

The General Fund is the statutory fund into which all the receipts of an authority are required to paid and out of which all liabilities of the authority are to be met, except to the extent that statutory rules might provide otherwise. These rules can also specify the financial year in which liabilities and payments should impact on the General Fund Balance, which is not necessarily in accordance with proper accounting practice. The General Fund Balance therefore summarises the resources that the council is statutorily empowered to spend on its services or on capital investment (or the deficit of resources that the council is required to recover) at the end of the financial year.

Capital Receipts Reserve

The Capital Receipts Reserve holds the proceeds from the disposal of land or other assets, which are restricted by statute from being used other than to fund new capital expenditure or to be set aside to finance historical capital expenditure. The balance on the reserve shows the resources that have yet to be applied for these purposes at the year-end.

Capital Grants Unapplied

The Capital Grants Unapplied Account (Reserve) holds the grants and contributions received towards capital projects for which the council has met the conditions that would otherwise require repayment of the monies but which have yet to be applied to meet expenditure. The balance is restricted by grant terms as to the capital expenditure against which it can be applied and/or the financial year in which this can take place.

4 NOTES TO THE MOVEMENT IN RESERVES STATEMENT

2019/20	General Fund Balance £000	Capital Receipts Reserve £000	Capital Grants Unapplied £000
Adjustments to the Revenue Resources			
Amounts by which income and expenditure included in the Comprehensive Income and Expenditure Statement are different from revenue for the year calculated in accordance with statutory requirements			
Pensions Costs (<i>transferred to (or from) the Pensions Reserve</i>)	843	0	0
Financial Instruments (<i>transferred to the Financial Instruments Adjustments Account</i>)	36	0	0
Council tax and NDR (<i>transfers to (or from) Collection Fund</i>)	88	0	0
Holiday Pay (<i>transferred to the Accumulated Absences Reserve</i>)	20	0	0
Reversal of entries included in the Surplus or Deficit on the Provisions of Services in relation to capital expenditure (<i>these items are charged to the Capital Adjustment Account</i>)	2,849	0	2,322
Total Adjustments to Revenue Resources	3,836	0	2,322
Adjustments between Revenue and Capital Resources			
Transfer of non-current asset sale proceeds from revenue to the Capital Receipts Reserve	(178)	178	0
Statutory provision for the repayment of debt (<i>transfer from the Capital Adjustment Account</i>)	(445)	0	0
Capital expenditure financed from revenue balances (<i>transfer to the Capital Adjustment Account</i>)	(21)	0	0
Total Adjustments between Revenue and Capital Resources	(644)	178	0
Adjustments to Capital Resources			
Use of the Capital Receipts Reserve to finance capital expenditure	0	(329)	0
Total Adjustments to Capital Resources	0	(329)	(272)
Total Adjustments	3,192	(151)	2,050

4 NOTES TO THE MOVEMENT IN RESERVES STATEMENT

2018/19	General Fund Balance £000	Capital Receipts Reserve £000	Capital Grants Unapplied £000
Adjustments to the Revenue Resources			
Amounts by which income and expenditure included in the Comprehensive Income and Expenditure Statement are different from revenue for the year calculated in accordance with statutory requirements			
Pensions Costs (transferred to (or from) the Pensions Reserve)	1,051	0	0
Financial Instruments (transferred to the Financial Instruments Adjustments Account)	211	0	0
Council tax and NDR (transfers to (or from) Collection Fund)	(513)	0	0
Holiday Pay (transferred to the Accumulated Absences Reserve)	5	0	0
Reversal of entries included in the Surplus or Deficit on the Provisions of Services in relation to capital expenditure (these items are charged to the Capital Adjustment Account)	(2,999)	0	352
Total Adjustments to Revenue Resources	(2,245)	0	352
Adjustments between Revenue and Capital Resources			
Transfer of non-current asset sale proceeds from revenue to the Capital Receipts Reserve	(110)	110	0
Statutory provision for the repayment of debt (transfer from the Capital Adjustment Account)	(422)	0	0
Total Adjustments between Revenue and Capital Resources	(532)	110	0
Adjustments to Capital Resources			
Use of the Capital Receipts Reserve to finance capital expenditure	0	(5)	0
Total Adjustments to Capital Resources	0	(5)	0
Total Adjustments	(2,777)	105	352

5 NOTES TO THE BALANCE SHEET

5.01 PROPERTY, PLANT AND EQUIPMENT

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

Expenditure on the acquisition, creation or enhancement of property, plant and equipment is capitalised on an accruals basis, provided that it is probable that the future economic benefits or service potential associated with the item will flow to the authority and the cost of the item can be measured reliably. Expenditure that maintains but does not add to an asset's potential to deliver future economic benefits or service potential (i.e. repairs and maintenance) is charged as an expense when it is incurred.

Assets are initially measured at cost, comprising the purchase price plus any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating on the manner intended by management.

Donated assets are measured initially at fair value. The difference between fair value and any consideration paid is credited to the Taxation and Non-specific Grant Income and Expenditure line of the Comprehensive Income and Expenditure Statement, unless the donation has been made conditionally. Until conditions are satisfied, the gain is held in the Donated Assets Account. Where gains are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund Balance to the Capital Adjustment Account in the Movement in Reserves Statement.

Charges to Revenue for Non-current Assets – Services and support services are debited with the following amounts to record the cost of holding non-current assets during the year:

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

The council is not required to raise council tax to fund depreciation, revaluation and impairment losses or amortisation. However, it is required to make an annual contribution from revenue, the Minimum Revenue Provision (MRP), towards the reduction in its overall borrowing requirement (equal to an amount calculated on a prudent basis determined by the council in accordance with statutory guidance). Depreciation, revaluation and impairment losses and amortisation are therefore replaced by the 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.

5 NOTES TO THE BALANCE SHEET

Component Accounting - Where components of an asset are significant in value in relation to the value of the asset as a whole, and they have substantially different economic lives, they will be recognised separately. Components will be recognised separately as and when they are replaced or re-valued. Individual assets valued at less than £200,000 will be disregarded for componentisation.

5.01.1 Revaluations

The council carries out a rolling programme that ensures all Property, Plant and Equipment required to be measured at current value is revalued at least every five years. For the 2019/20 financial year, valuations were carried out as at 31 March 2020. Increases in valuation are matched by credits to the Revaluation Reserve to recognise unrealised gains. Where decreases (an impairment) 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 on the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line in the Comprehensive Income and Expenditure Statement.

All valuations were carried out externally by independent valuers Capita Property and Infrastructure Ltd. Valuations of land and buildings were carried out in accordance with methodologies and basis for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors. Valuations of vehicles, plant and equipment are based on current prices where there is an active second-hand market or latest list prices adjusted for the condition of the asset.

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

- Infrastructure, community assets and assets under construction – depreciated historical cost
- Surplus Assets – fair value
- All other Assets – current value

Where there is no market-based evidence of current value because of the specialist nature of an asset, depreciated replacement cost (DRC) is used as an estimate of current value. Where non-property assets that have short useful lives or low values (or both), depreciated historical cost basis is used as a proxy for current value.

Fair Value - The council measures some of its non-financial assets, such as surplus assets and investment properties at fair value at each reporting date. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market

5 NOTES TO THE BALANCE SHEET

participants at the measurement date. The fair value measurement assumes that the transaction to sell the asset or transfer the liability takes place either:

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

The council measures the fair value of an asset or liability on the same basis that market participants would use when pricing the asset or liability (assuming those market participants were acting in their economic best interest).

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

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

Level 1 – quoted prices.

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

Level 3 – unobservable inputs for the asset or liability

5 NOTES TO THE BALANCE SHEET

The council's surplus assets have been assessed as Level 3 for valuation purposes.

	Other Land & Buildings £000	Vehicles, Plant & Equipment £000	Infrastructure Assets £000	Community Assets £000	Assets Under Construction £000	Surplus Assets £000	Total £000
Carried at historical cost	0	2,755	267	4,402	755	0	8,179
Valued at:							
31 March 2020	28,642	0	0	0	0	42	28,684
31 March 2019	6,453	0	0	0	0	0	6,453
31 March 2018	700	0	0	0	0	0	700
31 March 2017	630	0	0	0	0	0	630
31 March 2016	160	0	0	0	0	0	160
Total cost or valuation	36,585	2,755	267	4,402	755	42	44,806

5.01.2 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.

There were no impairment losses recognised in the year 2019/20 (2018/19 had no impairment losses). Impairment losses are charged to the Comprehensive Income and Expenditure Statement then reversed out to the Capital Adjustments Account through the Movement in Reserves Statement.

5 NOTES TO THE BALANCE SHEET

5.01.3 Depreciation

Depreciation is provided for on all Property, Plant and Equipment assets by the systematic allocation of their depreciable amounts over their useful lives. An exception is made for assets without a determinable finite useful life and assets that are not yet available for use such as assets under construction.

Depreciation is calculated on a straight-line allocation over the useful life of the assets. Where an item of Property, Plant and Equipment has major components whose cost is significant in relation to the total cost of the item, the components are depreciated separately.

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

Depreciation is calculated on the following bases:

- Infrastructure - straight line allocation 25 years
- Buildings – straight line allocation over the life of the property as estimated by the valuer
- Land – not depreciated
- Assets under construction – not depreciated
- Vehicles, plant and equipment – straight line allocation over 3 to 7 years
- IT and Intangible Assets – straight line allocation over 5 years

5.01.4 Capital Commitments

At the 31 March 2020, the authority has entered into an agreement for the construction of two blocks of 41 apartments at Hitches Lane, Fleet for future years at a budgeted cost of £7m. Capital commitments in place at the 31 March 2019 were £7m.

5 NOTES TO THE BALANCE SHEET

5.01.5 Movements on Balances

2019/20	Other Land & Buildings £000	Vehicles, Plant, Furniture & Equipment £000	Infrastructure Assets £000	Community Assets £000	Assets Under Construction £000	Surplus Assets £000	Total £000
Cost or Valuation							
At 1 April 2019	36,935	3,350	219	4,284	0	51	44,839
Additions	381	322	48	118	755	0	1,624
Revaluation increases / (decreases) recognised in the Revaluation Reserve	2,525	0	0	0	0	(2)	2,523
Revaluation increases / (decreases) recognised in the Surplus / Deficit on the Provision of Services	(3,256)	0	0	0	0	(7)	(3,263)
Derecognition - disposals	0	(917)	0	0	0	0	(917)
At 31 March 2020	36,585	2,755	267	4,402	755	42	44,806
Accumulated Depreciation & Impairment							
At 1 April 2019	(101)	(2,287)	(18)	(330)	0	0	(2,736)
Depreciation charge	(1,305)	(230)	(11)	(58)	0	(36)	(1,640)
Depreciation written out to the Revaluation Reserve	1,031	0	0	0	0	0	1,031
Depreciation written out to the Surplus / Deficit on the Provision of Services	97	0	0	0	0	36	133
Derecognition - disposals	0	917	0	0	0	0	917
At 31 March 2020	(278)	(1,600)	(29)	(388)	0	0	(2,295)
Net Book Value							
31 March 2020	36,307	1,155	238	4,014	755	42	42,511
31 March 2019	36,835	1,063	201	3,954	0	51	42,103

5 NOTES TO THE BALANCE SHEET

2018/19	Other Land & Buildings £000	Vehicles, Plant, Furniture & Equipment £000	Infrastructure Assets £000	Community Assets £000	Surplus Assets £000	Total £000
Cost or Valuation						
At 1 April 2018	40,408	3,027	162	4,284	48	47,929
Additions	355	323	57	0	0	734
Revaluation increases / (decreases) recognised in the Revaluation Reserve	(2,317)	0	0	0	(10)	(2,327)
Revaluation increases / (decreases) recognised in the Surplus / Deficit on the Provision of Services	(1,511)	0	0	0	25	(1,485)
Derecognition - disposals	0	0	0	0	(12)	(12)
At 31 March 2019	36,935	3,350	219	4,284	51	44,839
Accumulated Depreciation & Impairment						
At 1 April 2018	(1,478)	(2,128)	(10)	(264)	(3)	(3,883)
Depreciation charge	(1,319)	(160)	(8)	(65)	0	(1,552)
Depreciation written out to the Revaluation Reserve	2,194	0	0	0	0	2,194
Depreciation written out to the Surplus / Deficit on the Provision of Services	503	0	0	0	3	506
At 31 March 2019	(101)	(2,287)	(18)	(330)	0	(2,736)
Net Book Value						
31 March 2019	36,835	1,063	201	3,954	51	42,103
31 March 2018	38,930	900	152	4,020	45	44,047

5 NOTES TO THE BALANCE SHEET

5.02 INVESTMENT PROPERTIES

An investment property is defined as a property which is held exclusively for revenue generation or for the capital gains that the asset is expected to generate. In this respect, the asset is not used directly to deliver the council's 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 arms-length. Properties are not depreciated but are re-valued annually according to market conditions at the year-end. Gains and losses on revaluation are posted to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The same treatment is applied to gains and losses on disposal. There are no restrictions on the council's ability to realise the value inherent in its investment property or on the council's right to the remittance of income and the proceeds of disposal. The council has no contractual obligations to purchase, construct or develop investment property.

Rentals received in relation to investment properties are credited to the Financing and Investment Income line and result in a gain for the General Fund Balance. However, revaluation and disposal gains and losses are not permitted by statutory arrangements to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and (for any sale proceeds greater than £10,000) the Capital Receipts Reserve.

Fair Value - The council's investment property portfolio has been assessed as Level 2 for valuation purposes (see Note 5.01.1 for explanation of fair value levels).

Valuations have taken account of the following factors: existing lease terms and rentals taken from the tenancy schedule, independent research into market evidence including Market rentals and yields, and then adjusted to reflect the nature of each business tenancy or void and the covenant strength for existing tenants. There has been no change in the valuation techniques used during the year for investment properties.

	2018/19	2019/20
	£000	£000
Rental income from investment property	13	30
Net gain	13	30

5 NOTES TO THE BALANCE SHEET

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

	2018/19 £000	2019/20 £000
Balance at start of year	70	70
Additions:		
Purchases	0	6,283
Net gains or (losses) from fair value adjustments	0	(3)
Balance at end of year	70	6,350

5.03 INTANGIBLE ASSETS

Intangible Assets are created when expenditure on non-monetary assets that do not have physical substance but are controlled by the council as a result of past events (e.g. software licences), are capitalised and it is expected that future economic benefits or service potential will flow from the intangible asset to the council.

Intangible assets are measured initially at cost. The depreciable amount of an intangible asset is amortised over its useful life to the relevant service area in the Comprehensive Income and Expenditure Statement. An asset is tested for impairment whenever there is an indication that the asset might be impaired. Any gain or loss arising on the disposal or abandonment of an intangible asset is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement.

The council accounts for its software as intangible assets, to the extent that the software is not an integral part of a particular IT system and accounted for as part of the hardware item of Property, Plant and Equipment. The intangible assets include only purchased licenses.

All software is given a finite useful life, based on assessments of the period that the software is expected to be of use to the council. The useful lives assigned to the major software suites used by the council are all for 5 years.

5 NOTES TO THE BALANCE SHEET

The carrying amount of intangible assets is amortised on a straight-line basis. The amortisation of £9k charged to revenue in 2019/20 was charged to the IT and Finance Administration cost centre and then absorbed as an overhead across all the service headings in the Net Expenditure of Services.

	2018/19 £000	2019/20 £000
Balance at the start of year:		
Gross carrying amounts	366	366
Accumulated amortisation	(331)	(349)
Net carrying amount at the start of the year	35	17
Disposals	0	(4)
Amortisation for the period	(18)	(9)
Other changes - Amortisation on disposals	0	4
Net carrying amount at the end of year	17	8
Comprising:		
Gross carrying amounts	366	362
Accumulated amortisation	(349)	(354)
	17	8

5.04 FINANCIAL INSTRUMENTS

5.04.1 Categories of Financial Instruments

Financial liabilities are recognised on the balance sheet when authority becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value and are carried at their amortised cost. Annual charges to the financing and investment income and

5 NOTES TO THE BALANCE SHEET

expenditure line in the comprehensive income and expenditure statement (CIES) for interest payable are based on the carrying amount of liability, multiplied by the effective rate of interest for the instrument. The effective rate is the rate that exactly discounts estimated future cash payments over the life of the instrument to the amount at which it was originally recognised.

For borrowings that the authority has, this means that the amount presented in the balance sheet is the outstanding principal repayable (plus accrued interest); and interest charged to the CIES is the amount payable for the year according to the loan agreement.

Financial assets are classified based on a classification and measurement approach that reflects the business model for holding the financial assets and their cash flow characteristics.

There are three main classes of financial assets measured at:

- amortised cost
- fair value through profit or loss (FVPL), and
- fair value through other comprehensive income (FVOCI)

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

Financial assets measured at amortised cost are recognised on the Balance Sheet when the authority becomes a party to the contractual provisions of a financial instrument and are initially measured at 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 and Expenditure Statement (CIES) for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For most of the financial assets held by the authority, this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the CIES is the amount receivable for the year in the loan agreement.

Expected credit losses for all of financial assets held at amortised cost are recognised either on a 12-month or lifetime basis. The expected credit loss model also applies to lease receivables, and contract assets and trade receivables with a significant financing component. Due to our ECLM not being material no changes to the accounts have been made and no disclosures included.

Impairment losses are calculated to reflect the expectation that the future cash flows might not take place because the borrower could default on their obligations. Credit risk plays a crucial part in assessing losses.

5 NOTES TO THE BALANCE SHEET

Where risk has increased significantly since an instrument was initially recognised, losses are assessed on a lifetime basis. Where risk has not increased significantly or remains low, losses are assessed on the basis of 12-month expected losses.

For trade and contract receivables without a significant financing component the Council has applied a simplified approach consistently to calculate expected credit losses, under which impairment losses are automatically based on lifetime expected credit losses, removing the need to consider changes in credit risk since initial recognition

In accordance with the Code of Accounting Practice, no impairment loss allowance is recognised for monies owed by Central and Local Government bodies.

2018/19 saw the introduction of IFRS 9 a movement away from IAS 39. With the introduction of a new standard the Council has had to assess whether this makes any changes to the valuation methodology of its financial instruments or the classifications. The impact on Hart District Council is that there is no change to valuation methodologies and all financial assets and liabilities are now classified as amortised assets and liabilities.

Restatements of 2018/19 figures in Financial Assets and Financial Liabilities tables in this Note are due to following adjustments:

- Presentation adjustment to realign the Note against the Code (Soft loan presented as separate category)
- Restatement of figure: Current Debtors at Amortised cost to include items that are financial instruments only
- Restatement of figure: Current Creditors at Amortised cost to include items that are financial instruments only

Changes affecting 2018/19 restatement for this Note 5.04.1 are also directly related to Note 5.04.5 which has therefore been restated for the same adjustments identified above.

5 NOTES TO THE BALANCE SHEET

The following categories of financial instruments are carried in the Balance Sheet:

Financial Assets	Non-current				Current				Total	
	Investments / Cash & Cash Equivalents		Debtors		Investments / Cash & Cash Equivalents		Debtors			
	31 March 2019	31 March 2020	31 March 2019	31 March 2020	31 March 2019	31 March 2020	Restated 31 March 2019	Restated 31 March 2020		
	£000	£000	£000	£000	£000	£000	£000	£000		
Amortised cost-soft loan	0	0	1,321	1,254	0	0	185	209	1,506	1,463
Amortised cost-other	0	0	0	0	31,261	29,760	2,207	3,058	33,468	32,818
Total Financial Assets	0	0	1,321	1,254	31,261	29,760	2,392	3,267	34,974	34,281
Non-financial Assets	0	0	0	0	0	0	2,125	1,784	2,125	1,784
Total	0	0	1,321	1,254	31,261	29,760	4,517	5,051	37,099	36,065

Current debtors at amortised cost in the 2018/19 accounts was £3,198. The restatement is £806k and is due to the exclusion of cash in transit, payments in advance and HB overpayments presented incorrectly as financial instruments in the prior year.

5 NOTES TO THE BALANCE SHEET

Financial Liabilities	Non-current		Current				Total		
	Borrowings		Creditors		Borrowings		Creditors		
	31 March 2019	31 March 2020	31 March 2019	31 March 2020	31 March 2019	31 March 2020	Restated 31 March 2019	Restated 31 March 2020	
£000	£000	£000	£000	£000	£000	£000	£000	£000	
Amortised costs	(12,277)	(11,008)	0	0	(1,372)	(1,377)	(2,462)	(16,111)	(15,483)
Total Financial Liabilities	(12,277)	(11,008)	0	0	(1,372)	(1,377)	(2,462)	(16,111)	(15,483)
Non-financial Liabilities	0	0	0	0	0	0	(2,760)	(2,760)	(4,149)
Total	(12,277)	(11,008)	0	0	(1,372)	(1,377)	(5,222)	(18,871)	(19,632)

Current creditors at amortised cost in the 2018/19 accounts was £8,384k. The restatement is £5,922k and is due to the exclusion of grants received in advance, employee related creditors, charity accounts and S106 accounts incorrectly presented as financial instruments in the prior year.

5 NOTES TO THE BALANCE SHEET

5.04.2 Material soft loans made by authority

The loan to Serco ltd, as part of the waste agreement with Basingstoke and Dean Borough Council, for vehicles is deemed to be material soft loan. The loan is an interest free loan of £1.908m to Serco ltd over eight years.

	2018/19 £000	2019/20 £000
Balance at start of the year:		
Opening balance	0	1,506
Nominal value of new loans granted in the year	1,742	166
Fair value adjustment on initial recognition	(180)	(11)
Loans repaid	(57)	(198)
Closing balance at the end of the year	<u>1,506</u>	<u>1,463</u>
Nominal value at 31 March	<u>1,651</u>	<u>1,585</u>

5 NOTES TO THE BALANCE SHEET

5.04.3 Income, Expense, Gains and Losses

Income Expense Gains & Losses	2018/19 Surplus or Deficit on Provision of Services £000	2019/20 Surplus or Deficit on Provision of Services £000
Interest expense:		
Financial liabilities measured at amortised cost	271	258
Total Expense	271	258
Interest revenue:		
Financial assets measured at amortised cost	(367)	(334)
Total Income	(367)	(334)
Net Profit / (Loss) for the year	(96)	(76)

5 NOTES TO THE BALANCE SHEET

5.04.4 Fair Value Measurement of Financial Assets

Fair value of an asset is the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date. The fair value measurements of the authority's financial assets are based on the following techniques:

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

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

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

5.04.5 Fair Value of Financial Assets and Liabilities Not Measured at Fair Value

All financial liabilities and financial assets held by the council are carried in the balance sheet as amortised cost.

- The fair values of other long-term loans and investments have been discounted at the market rates for similar instruments with similar remaining terms to maturity on 31 March.
- The fair values of finance lease assets and liabilities have been calculated by discounting the contractual cash flows (excluding service charge elements) at the appropriate corporate bond yield, except where it is judged that this is not appropriate.
- The fair value of short-term instruments, including trade payables and receivables, is assumed to approximate to the carrying amount given the low and stable interest rate environment.

5 NOTES TO THE BALANCE SHEET

Financial Assets & Liabilities	31 March 2019		31 March 2020	
	Restated Carrying Amount £000	Restated Fair Value £000	Carrying Amount £000	Fair Value £000
Financial Assets				
Amortised cost - Investments	31,261	31,261	29,760	29,776
Amortised cost - Short term debtors	2,392	2,392	3,267	3,267
Long term debtors	1,321	1,321	1,254	1,254
Total Financial Assets	34,974	34,974	34,281	34,297
Financial Liabilities				
Amortised cost - Short term borrowing	(1,372)	(1,372)	(1,377)	(1,377)
Amortised cost - Short term creditors	(2,462)	(2,462)	(3,098)	(3,098)
Long term borrowing	(12,277)	(12,396)	(11,008)	(10,888)
Total Financial Liabilities	(16,111)	(16,230)	(15,483)	(15,363)

The fair value of borrowing is lower than carrying amount because council's portfolio of loans includes a number of fixed rate loans where the interest rate payable is lower than the prevailing rates of the balance sheet date. This shows notional future gain (based on economic conditions at 31 March 2020) arising from a commitment to pay interest below current market rate.

5.05 DEBTORS

Income is recognised in the accounts when it becomes due. Income that is due but has not been received at the end of the financial year is carried under the debtors heading in the balance sheet. This debtor balance is reviewed at each year end to assess the recoverability of the sums due and where it is doubtful that debts will be settled the balance of debtors is written down and an impairment charge made to the relevant account for the income that might not be collected. This assessment is carried out using the council's past experience and current knowledge of collection rates for different groups of debtors.

5 NOTES TO THE BALANCE SHEET

	31 March 2019 £000	31 March 2020 £000
Short-term Debtors		
Central government bodies	344	187
Other local authorities	2,146	1,361
Other entities and individuals	2,027	3,503
	<u>4,517</u>	<u>5,051</u>
Long-term Debtors		
Other entities and individuals	1,321	1,254
	<u>1,321</u>	<u>1,254</u>

5.06 CASH AND CASH EQUIVALENTS

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are investments that mature in no more than three months or less from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

	31 March 2019 £000	31 March 2020 £000
Bank current accounts	2,854	2,439
Short-term deposits	16,407	16,321
	<u>19,261</u>	<u>18,760</u>

5 NOTES TO THE BALANCE SHEET

5.07 ASSETS HELD FOR SALE

Assets held for sale are items of property, plant or equipment or a group of assets and liabilities whose carrying amount is to be recovered principally through a sale rather than its continued use by the authority. As at 31 March 2020 there is one asset classified as held for sale in category property, plant and equipment.

	31 March 2019 £000	31 March 2020 £000
Balance outstanding at start of year	0	88
Assets newly classified as held for sale:		
Property, Plant & Equipment	88	0
Assets Sold	0	(88)
Balance outstanding at year-end	88	(0)

5 NOTES TO THE BALANCE SHEET

5.08 BORROWINGS

The total borrowings in the Balance Sheet carry the principal amount repayable. Interest is charged to the Comprehensive Income and Expenditure statement in accordance with the loan agreement. The short term borrowing includes two elements; one of which is a PWLB loan that is repayable at fixed rate within the next year and the other that is also repayable to Hampshire Council within the next year. The long term borrowing includes the loan to PWLB repayable up to more than 20 years and another which is repayable to Hampshire County Council in 5 years.

	31 March 2019	31 March 2020
	£000	£000
Short term Borrowing		
PWLB	371	377
HCC	1,000	1,000
Total	1,371	1,377
Long term Borrowing		
PWLB	8,906	8,577
HCC	3,371	2,431
Total	12,277	11,008
Total	13,648	12,385

5 NOTES TO THE BALANCE SHEET

5.09 CREDITORS

Creditors are all amounts owed by the council as at 31 March 2020.

	31 March 2019 £000	31 March 2020 £000
Central government bodies	(1,235)	(2,337)
Other local authorities	(1,913)	(2,443)
Other entities and individuals	(2,074)	(2,467)
	<u>(5,222)</u>	<u>(7,247)</u>

5.10 PROVISIONS

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

Provisions are charged as an expense to the appropriate service line in the Comprehensive Income and Expenditure Statement in the year that the council becomes aware of the obligation, and are measured at the best estimate at the balance sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties. When payments are eventually made, they are charged to the provision carried in the Balance Sheet. Estimated settlements are reviewed at the end of each financial year. Where it becomes less than probable that a transfer of economic benefits will now be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant service.

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

5 NOTES TO THE BALANCE SHEET

	Balance at 1 April 2019 £000	Additional provisions made in 2019/20 £000	Amounts used in 2019/20 £000	Unused amounts reversed in 2019/20 £000	Balance at 31 March 2020 £000
Business Rates Appeals Provision	(334)	532	0	(500)	(302)
	(334)	532	0	(500)	(302)

5.11 USABLE RESERVES

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

Certain reserves are kept to manage the accounting processes for non-current assets, financial instruments, retirement and employee benefits and do not represent usable resources for the council – these are capital reserves. The Capital Receipts Reserve and S106 reserves are examples of this.

General Fund - the primary fund of the council. It records all assets and liabilities of the council that are not assigned to a special purpose fund. It provides the resources necessary to sustain the day-to-day activities and thus pays for all administrative and operating expenses.

Earmarked Reserves - The council has a number of earmarked reserves and details of the main earmarked reserves can be found in the earmarked reserves below.

Capital Receipts Reserve - represents the capital receipts available to finance capital expenditure in future years, after setting aside any statutory amounts for the repayment of loans. The receipt arising from the disposal of an asset will be classed as a capital receipt, to be used to finance capital expenditure, if it is greater than £10,000. If the receipt falls below this threshold it will fall to the income and expenditure account, in accordance with the Local Government Act 2003.

5 NOTES TO THE BALANCE SHEET

Capital Grants Unapplied Reserve - where a capital grant or contribution has been recognised as income in the Comprehensive Income and Expenditure Statement, but the expenditure to be financed from that grant or contribution has not been incurred at the Balance Sheet date, the grant or contribution shall be transferred to the Capital Grants Unapplied Reserve. These balances are a capital resource available to finance expenditure.

Movements in the council's usable reserves are detailed in 4.0 Movement in Reserves Statement and Note 4.01 Adjustments between accounting basis and funding basis under regulation.

The balances of the individual reserves can be seen on the Balance Sheet.

5 NOTES TO THE BALANCE SHEET

5.11.1 TRANSFERS TO / FROM EARMARKED RESERVES

Earmarked reserves are created for specific purposes (legal/contractual requirement) that span financial years for which there is a definitive time frame. The note below sets out the amounts set aside from the General Fund in earmarked reserves to provide financing for future expenditure plans and the amounts posted back from earmarked reserves to meet General Fund expenditure in 2019/20.

	Balance at 1 April 2018 £000	Transfers In 2018 £000	Transfers Out 2018 £000	Balance at 2018/19 £000	Transfers In 2019 £000	Transfers Out 2019 £000	Balance at 2019/20 £000
Hitches Lane SANG	6,083	41	(105)	6,019	1,039	(135)	6,922
Corporate Services	1,422	2,789	(1,619)	2,592	150	(576)	2,166
NNDR Smoothing Account	1,230	224	(330)	1,124	500	0	1,624
Open Spaces	572	30	(278)	324	49	(53)	320
Housing	811	846	(247)	1,410	639	(569)	1,480
Bramshot - SANG	467	491	0	958	1,173	(322)	1,809
Planning	217	0	0	217	0	0	217
Small SANG Sites	158	418	0	576	1	(20)	558
Community Reserve	66	0	(27)	39	0	(26)	13
Regulatory Services	0	50	0	50	57	0	107
Digital Transformation	0	0	0	0	500	0	500
Health Contribution	76	219	(32)	263	2	0	265
Other Earmarked Reserves	92	81	(63)	110	123	(38)	195
Total Earmarked Reserves	11,194	5,189	(2,701)	13,682	4,233	(1,739)	16,176

A brief description of those reserves with balances over £50,000 is provided below.

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5 NOTES TO THE BALANCE SHEET

Hitches Lane, Dilly Lane and Bramshot SANG

Developer's contributions to provide Suitable Alternative Natural Green (SANG) spaces.

NNDR Smoothing Account

To be used to fund the NNDR deficit

Open Spaces

This reserve holds developers contributions towards the maintenance of Elvetham Heath.

Regulatory Services

This funding is required to support our democratic structure in delivering web streaming of regulatory services committee meetings.

Homelessness Housing Reserve

This is a fund built up to facilitate the provision of services to homeless people in the District.

Corporate, Community and Planning Reserve

These reserves are to fund a number of projects within these service areas.

Health Contribution

Health Contribution in respect of Queen Elizabeth Barracks (QEB).

Covid-19

Following the Covid-19 pandemic the importance of digital transformation, flexible and agile working has been recognised as a necessity for the Council.

5 NOTES TO THE BALANCE SHEET

5.12 UNUSABLE RESERVES

5.12.1 Revaluation Reserve

The Revaluation Reserve contains the gains made by the council arising from increases in the value of its Property, Plant and 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, or
- disposed of and the gains are realised

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

	31 March 2019	31 March 2020
	£000	£000
Balance at 1 April	3,714	3,450
Upward revaluation of assets	1,396	4,430
Downward revaluation of assets and impairment losses not charged to the Surplus/Deficit on the Provision of Services	(1,529)	(876)
Surplus or deficit on revaluation of non-current assets not posted to the Surplus or Deficit on the Provision of Services	(133)	3,554
Difference between fair value depreciation and historical cost depreciation	(123)	(128)
Accumulated gains on assets sold or scrapped	(8)	0
Amount written off to the Capital Adjustment Account	(131)	(128)
Balance at 31 March	3,450	6,876

5 NOTES TO THE BALANCE SHEET

5.12.2 Financial Instruments Revaluation Reserve

The financial instruments revaluation reserve comprises the transferred unrealised fair value gain/loss from the available for sale reserve as at 31 March 2019 (11k), the investment was redeemed during 2018/19 and this reserve remains zero value as at 31 March 2020.

	31 March 2019	31 March 2020
	£000	£000
Balance at 1 April		
Transfer from Available for Sale Financial Instrument Reserve	11	0
Accumulated gains or losses on assets sold and maturing assets written out to the comprehensive income and expenditure statement as part of other investment income	(11)	0
Balance at 31 March	0	0

5.12.3 Capital Adjustment Account

The Capital Adjustment Account absorbs the timing differences arising from the different arrangements in accounting for the consumption of non-current assets and for financing the acquisition, construction or enhancement of those assets under statutory provisions. The account is debited with the cost of acquisition, construction or enhancement as depreciation, impairment losses and amortisations are charged to the Comprehensive Income and Expenditure Statement (with reconciling postings from the Revaluation Reserve to convert fair value figures to a historical cost basis). The account is credited with the amounts set aside by the council as finance for the costs of acquisition, construction and enhancement.

The account contains accumulated gains and losses on Investment Properties and gains recognised on donated assets that have yet to be consumed by the council. The account also contains revaluation gains accumulated on Property, Plant and Equipment before 1 April 2007, the date that the Revaluation Reserve was created to hold such gains.

5 NOTES TO THE BALANCE SHEET

31 March 2019 31 March 2020
£000 £000

Balance at 1 April	19,358	22,564
Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:		
Charges for depreciation and impairment of non-current assets	(1,552)	(1,640)
Revaluation gains or (losses) on Property, Plant and Equipment	(979)	(3,130)
Amortisation of intangible assets	(18)	(9)
Revenue expenditure funded from capital under statute	(1,649)	(1,376)
Amounts of non-current assets written off on disposal or sale as part of the gain/(loss) on disposal to the Comprehensive Income and Expenditure Statement	(12)	(88)
Adjusting amounts written out of the Revaluation Reserve	(4,211)	(6,243)
	131	128
Net written out amount of the cost of non-current assets consumed in the year	(4,080)	(6,115)
Capital financing applied in the year:		
Use of the Capital Receipts Reserve to finance new capital expenditure	5	329
Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	866	1,075
Application of grants to capital financing from the Capital Grants Unapplied Account	5,993	272
Statutory provision for the financing of capital investment charged against the General Fund balance	422	445
Capital expenditure charged against the General Fund balance	0	21
	7,286	2,142
Movements in the market value of Investment Properties debited or credited to the Comprehensive Income and Expenditure Statement	0	(3)
Balance at 31 March	22,564	18,588

5 NOTES TO THE BALANCE SHEET

5.12.4 Financial Instruments Adjustment Account

The Financial Instruments Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for income and expenses relating to certain financial instruments and for bearing losses or benefiting from gains per statutory provisions.

The council uses the account to manage fair value adjustments regarding the soft loan for Bramshot Farm and the soft loan for Serco. Balance Sheet represents adjustment for Bramshot Farm Loan received from Hampshire County Council and soft loan to Serco.

	31 March 2019 £000	31 March 2020 £000
Balance at 1 April	(269)	(23)
Amount by which finance costs charged to the comprehensive income and expenditure statement are different from finance costs chargeable in the year in accordance with statutory requirements	245	35
Balance at 31 March	(23)	12

5.12.5 Pensions Reserve

The Pensions Reserve absorbs the timing differences arising from the different arrangements in accounting for post-employment benefits and for funding benefits in accordance with statutory provisions. The council accounts for post-employment benefits in the Comprehensive Income and Expenditure Statement as the benefits are earned by employees accruing years of service, updating the liabilities recognised to reflect inflation and changing assumptions and investment returns on any resources set aside to meet the costs. However, statutory arrangements require benefits earned to be financed at the time the council makes the employer contributions to pension funds or eventually pays any pensions for which it is directly responsible. The debit balance on the Pensions Reserve therefore shows a substantial shortfall between the benefits earned by past and current employees and the resources the council has set aside to meet them. The statutory arrangements will ensure that funding will have been set aside by the time the benefits come to be paid.

5 NOTES TO THE BALANCE SHEET

	31 March 2019	31 March 2020
	£000	£000
Balance at 1 April		
Re-measurement of the net defined benefit (liability) / asset	(26,693)	(24,773)
Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement	2,970	(2,187)
Employer's pensions contributions and direct payments to pensioners payable in the year	(2,150)	(2,056)
	1,100	1,213
Balance at 31 March	(24,773)	(27,803)

5 NOTES TO THE BALANCE SHEET

5.12.6 Collection Fund Adjustment Account

The Collection Fund Adjustment Account manages the differences arising from the recognition of council tax income and non-domestic rates income in the Comprehensive Income and Expenditure Statement as it falls due from council tax and non-domestic rate payers compared with the statutory arrangements for paying across amounts to the General Fund from the Collection Fund.

	Total	Council Tax	Non-domestic Rates	Total
	31 March 2019	31 March 2020	31 March 2020	31 March 2020
	£000	£000	£000	£000
Balance at 1 April	(680)	(58)	(109)	(167)
Amount by which council tax and non-domestic rates income credited to the Comprehensive Income and Expenditure Statement is different from council tax income and non-domestic rates income calculated for the year in accordance with statutory requirements	513	89	(177)	(88)
Balance at 31 March	(167)	31	(286)	(255)

5.12.7 Accumulated Absences Account

Benefits payable during employment are short-term employee benefits due to be settled wholly within 12 months of the year-end. They include such benefits as wages and salaries, paid annual leave and paid sick leave, bonuses and non-monetary benefits (e.g. cars) for current employees and are recognised as an expense for services in the year in which employees render services to the council. Where wages/salaries, overtime, and any other allowances have not physically been paid for within the period but relates to the period then the period will be charged by the means of an accrual.

However these transactions must not have a financial impact upon the General Fund. To mitigate this accrual a corresponding entry will be made to the Accumulated Absences Account.

5 NOTES TO THE BALANCE SHEET

	31 March 2019 £000	31 March 2020 £000
Balance at 1 April	(43)	(48)
Settlement or cancellation of accrual made at the end of the preceding year	43	48
Amounts accrued at the end of the current year	(48)	(68)
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	(5)	(20)
Balance at 31 March	(48)	(68)

5.13 CAPITAL EXPENDITURE AND CAPITAL FINANCING

The total amount of capital expenditure incurred in the year is shown in the table below (including the value of assets acquired under finance leases) together with the resources that have been used to finance it. Where capital expenditure is to be financed in future years by charges to revenue as assets are used by the council, the expenditure results in an increase in the Capital Financing Requirement (CFR), a measure of the capital expenditure incurred historically by the council that has yet to be financed. The CFR is analysed in the second part of this note.

Revenue Expenditure Funded by Capital under Statute - These amounts represent expenditure on capital grants and other payments which do not result in an asset belonging to the council. Under the government's capital controls this expenditure would be treated as revenue expenditure. These amounts should be written off over a period consistent with the consumption of the economic benefits controlled by the council. As the council does not control the economic benefits arising from this particular expenditure, 100% of the expenditure is written off to revenue in the year it is incurred, leaving no balance at the end of the year.

The expenditure (net of grants received) is written off to the Capital Adjustment Account via the Movement in Reserves Statement.

5 NOTES TO THE BALANCE SHEET

	2018/19 £000	2019/20 £000
Opening Capital Financing Requirement	21,165	16,263
Capital Investment		
Property, Plant and Equipment	734	1,624
Investment Properties	0	6,283
Revenue Expenditure Funded from Capital under Statute	1,649	1,376
Sources of Finance		
Capital receipts	(5)	(329)
Government grants and other contributions	(6,859)	(1,346)
Sums set aside from revenue		
Direct revenue contributions	0	(21)
Minimum revenue provision	(422)	(445)
Closing Capital Financing Requirement	16,263	23,405
Explanation of movements in year		
Increase/(decrease) in underlying need to borrow (unsupported by Government financial assistance)	(4,902)	7,142
Increase/(decrease) in Capital Financing Requirement	(4,902)	7,142

5 NOTES TO THE BALANCE SHEET

5.14 FINANCE 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.

Embedded leases within contracts - There is a requirement for the council to identify any instances where there are contracts in place to provide a service to the council and consider whether there are any embedded leases within these contracts. Where such instances are identified the council is required to identify the element of the contractual payments made in respect of these assets and to account for these as a finance lease as above.

5.14.1 Council as Lessee

Property, plant and equipment held under finance leases are recognised on the Balance Sheet at the commencement of the lease at its fair value measured at the leases inception (or, if lower, the present value of the minimum lease payments). The asset recognised is matched by a liability for the obligation to pay the lessor. Initial direct costs of the council are added to the carrying amount of the asset. Premiums paid on entry into a lease are applied to writing down the lease liability. Contingent rents are charged as expenses in the periods in which they are incurred. Lease payments are apportioned between:

- a charge for the acquisition of the interest in the property, plant or equipment – 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 and Expenditure Statement.

The council doesn't have any of these assets.

5.14.2 Council as Lessor

Finance leases – Where the council grants a finance lease over property, plant or equipment, the relevant asset is written out of the Balance Sheet as a disposal. At the commencement of the lease, the carrying amount of the asset in the Balance Sheet is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. A gain, representing the council's net investment in the lease, is credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal, matched by a lease asset in the Balance Sheet.

5 NOTES TO THE BALANCE SHEET

Lease rentals receivable are apportioned between:

A charge for the acquisition of the interest in the property, plant or equipment – applied to write down the lease debtor, and Finance income Credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

The gain credited to the Comprehensive Income and Expenditure Statement on disposal is not permitted by statute to increase the General Fund Balance and is required to be treated as a capital receipt.

The council received no material rental income from properties under finance leases.

5.15 DEFINED BENEFIT PENSION SCHEME

5.15.1 Participation in pension schemes

Employees of the council are members of the Local Government Pension Scheme, administered by Hampshire County Council (HCC). The Scheme provides defined benefits to pension scheme members (retirement lump sums and pensions) earned as employees worked for the council. The Local Government Pension Scheme is accounted for as a defined benefits scheme:

- The liabilities of the HCC pension scheme attributable to the council are included in the Balance Sheet on an actuarial basis using the projected unit method i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employees turnover rates etc and projections of earnings for current employees.
- Liabilities are discounted to their value at current prices, using a discount rate based on the indicative rate of return on high quality corporate bond (gross redemption yield on the iBoxx Sterling Corporates Index, AA over 15 years).
- A significant proportion of the assets of the Scheme are invested in equities. The assets of the HCC pension fund attributable to the council are included in the balance sheet at their fair value:
 - Quoted securities-current bid price
 - Unquoted securities-professional estimate
 - Unlisted securities-current bid price
 - Property-market value

5 NOTES TO THE BALANCE SHEET

- The change in the net pensions liability is analysed into seven components:
 - Service cost comprising:
 - current service cost - the increase in liabilities as a result of years of service earned for the year - allocated in the Comprehensive Income and Expenditure Statement to the revenue accounts of services for which the employees worked;
 - past service cost - the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years - debited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs;
 - Net interest on the net defined benefit liability/asset i.e. net interest expense for the council – the change during the period in the net defined benefit liability/asset that arises from the passage of time charged to the Financing and Investment Income and Expenditure line of the Comprehensive Income and Expenditure Statement - this is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the net defined benefit liability/asset at the beginning of the period, taking into account any changes in the net defined benefit liability/asset during the period as a result of contribution and benefit payments.
 - Re-measurements comprising:
 - the return on plan assets – excluding amounts included in net interest on the net defined benefit liability - charged to the Pension Reserve as Other Comprehensive Income and Expenditure;
 - actuarial gains and losses - changes in the net pension's liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions - charged to the Pension Reserve as Other Comprehensive Income and Expenditure;
 - Contributions paid to the HCC pension fund - cash paid as the employer's contributions to the pension fund in settlement of liabilities; not accounted for as an expense.

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

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

5 NOTES TO THE BALANCE SHEET

As part of the terms and conditions of employment, the council offers retirement benefits. Although these benefits will not actually be payable until employees retire, the council has a commitment to make the payments that need to be disclosed at the time that employees earn their future entitlement.

The council participates in the Local Government Pension Scheme, administered locally by Hampshire County Council. This is a funded defined benefit final payment scheme, meaning that the council and employees pay contributions into a fund, calculated at a level intended to balance the pension liabilities with investment assets. In addition there is an un-funded defined benefit arrangement under which liabilities are recognised when awards are made. There are no investment assets built up to meet these pension liabilities and cash has to be generated to meet actual pension payments as they eventually fall due.

The pension scheme is operated under the regulatory framework for the Local Government Pension Scheme and the governance of the scheme is the responsibility of the pensions' committee of Hampshire County Council. Policy is determined in accordance with the Pensions Fund Regulations. The principal risks to the scheme are the longevity assumptions, statutory or structural changes to the scheme, adverse fluctuations in inflation, bond yields and the performance of the equity investment held by the scheme. These risks are mitigated to a certain extent by the statutory requirements to charge to the General Fund the amounts required by statute as described in the accounting policies note.

Discretionary post-retirement benefits on early retirement are unfunded defined benefit arrangements under which liabilities are recognised when awards are made. There are no plan assets built up to meet these pension liabilities.

5.15.2 Transactions Relating to Post-employment Benefits

The council recognises the cost of retirement benefits in the reported cost of services when they are earned by employees, rather than when the benefits are eventually paid as pensions whereas, the charge the council is required to make against council tax is based on the cash payable in the year, so the real cost of retirement benefits is reversed out of the General Fund via the Movement in Reserves Statement. The following transactions have been made in the Comprehensive Income and Expenditure Statement and the General Fund Balance via the Movement in Reserves Statement during the year:

5 NOTES TO THE BALANCE SHEET

	Local Government Pension Scheme		Discretionary Benefits Arrangements	
	2018/19	2019/20	2018/19	2019/20
	£000	£000	£000	£000
Comprehensive Income and Expenditure Statement				
Operating cost comprising:				
Current Service Cost	1,010	1,476	0	0
Past Service Cost	470	0	0	0
Net interest expense	620	534	50	46
Total Post-employment Benefits Charged to the (Surplus) or Deficit on the Provision of Services	2,100	2,010	50	46
Remeasurement of the net defined benefit liability comprising:				
Return on plan assets (excluding the amount included in the net interest expense)	(3,590)	1,757	0	0
Actuarial (gains) and losses arising on changes in demographic assumptions	(3,190)	(1,925)	(90)	(35)
Actuarial (gains) and losses arising on changes in financial assumptions	3,680	(1,626)	50	(17)
Actuarial (gains) and losses due to liability experience	160	3,948	10	85
Total Post-employment Benefit (Gains) and Losses Charged to the Comprehensive Income and Expenditure Statement	(840)	4,164	20	79

5 NOTES TO THE BALANCE SHEET

	Local Government Pension Scheme		Discretionary Benefits Arrangements	
	2018/19 £000	2019/20 £000	2018/19 £000	2019/20 £000
Movement in Reserves Statement				
Reversal of net charges made to the Surplus or Deficit on the Provision of Services for post-employment benefits in accordance with the Code	(2,100)	(2,010)	(50)	(46)
Actual amount charged against the General Fund Balance for pensions in the year:				
Employers' contributions to the scheme	940	1,055	0	0
Retirement benefits payable to pensioners	0	0	160	158

5.15.3 Pension Assets and Liabilities Recognised in the Balance Sheet

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

	Local Government Pension Scheme		Discretionary Benefits Arrangements	
	2018/19 £000	2019/20 £000	2018/19 £000	2019/20 £000
Present value of the defined benefit obligation	77,500	78,640	2,085	2,002
Fair value of plan assets	(54,730)	(52,760)	0	0
Net liability arising from defined benefit obligation	22,770	25,880	2,085	2,002

5 NOTES TO THE BALANCE SHEET

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

	Local Government Pension Scheme		Discretionary Benefits Arrangements	
	2018/19 £000	2019/20 £000	2018/19 £000	2019/20 £000
Opening fair value of scheme assets	51,383	54,733	0	0
Opening fair value of scheme assets adjustment	0	(4)	0	0
Interest income	1,320	1,296	0	0
Remeasurement gain/(loss):				
Return on plan assets, excluding the amount in the net interest expense	3,590	(1,757)	0	0
Contributions from employer	940	1,055	237	159
Contributions from employees into the scheme	270	279	0	0
Benefits paid	(2,770)	(2,842)	(237)	(159)
Closing fair value of scheme assets	54,733	52,760	0	0

5 NOTES TO THE BALANCE SHEET

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

	Local Government Pension Scheme		Discretionary Benefits Arrangements	
	2018/19 £000	2019/20 £000	2018/19 £000	2019/20 £000
Opening balance at 1 April	75,930	77,500	2,302	2,085
Opening balance at 1 April adjustment	0	0	0	(3)
Current service cost	1,010	1,476	0	0
Interest cost	1,940	1,830	50	46
Contributions from scheme participants	270	279	0	0
Actuarial (gains) and losses arising on changes in demographic assumptions	(3,190)	(1,925)	(90)	(35)
Actuarial (gains) and losses arising on changes in financial assumptions	3,680	(1,626)	50	(17)
Actuarial (gains) and losses due to liability experience	160	3,948	10	85
Past Service Cost (including curtailments)	470	0	0	0
Benefits paid	(2,770)	(2,842)	(237)	(159)
Closing balance at 31 March	77,500	78,640	2,085	2,002

5 NOTES TO THE BALANCE SHEET

5.15.6 Local Government Pension Scheme Assets

The fair value of the scheme assets are:

	2018/19		2019/20		2019/20		2019/20	
	Total £000	%	Quoted £000	%	Unquoted £000	%	Total £000	
Cash and cash equivalents	1,259	2.3	1,794	3.4	0	0.0	1,794	
Equities	33,059	60.4	23,795	45.1	3,957	7.5	27,752	
Bonds:								
Corporate	2,846	5.2	0	0.0	0	0.0	0	
Government	12,424	22.7	11,185	21.2	0	0.0	11,185	
Property	4,160	7.6	422	0.8	3,271	6.2	3,693	
Other*	985	1.8	7,386	14.0	950	1.8	8,336	
Total	54,733	100	44,582	84.5	8,178	15.5	52,760	

*Other holdings cover hedge funds, currency holdings, asset allocation futures and other financial instruments. The return is in line with that of equities.

5.15.7 Basis for Estimating Assets and Liabilities

Results under IAS 19 can change dramatically depending on market conditions which when taken in conjunction with discount rate volatility will lead to volatility in the funded status of the pension plan and thus to volatility in the net pension liability on the council's Balance Sheet, Other Comprehensive Income and the IAS 19 pension expense in Cost of Services. The council has disclosed information about the sensitivity of the defined benefit to changes in key assumptions in accordance with the requirements of the revised IAS 19.

The estimation of the defined benefit obligation is sensitive to the actuarial assumptions. The sensitivity analyses below have been determined based on reasonably possible changes of the assumptions occurring at the end of the reporting period and assumes for each change that the

5 NOTES TO THE BALANCE SHEET

assumption analysed changes while all the other assumption remained constant. The assumptions in longevity, by way of an example, assume that life expectancy increases or decreases for men and women when in practice this is unlikely to occur and also changes in some of the assumptions may be interrelated. The estimations in the sensitivity analysis have followed the accounting policies for the scheme i.e. on an actuarial basis using the projected unit credit method, an estimate of the pensions that will be payable in future years dependant on assumptions about mortality rates, salary levels etc. The methods and types of assumptions used in preparing the sensitivity analysis below did not change from those used in the previous period.

The Local Government Pension Scheme and discretionary benefits liabilities have been estimated by Aon Hewitt Limited, an independent firm of actuaries, with estimates for the County Council Fund being based on the latest full valuation of the scheme as at 31 March 2019.

	Local Government Pension Scheme	
	2018/19	2019/20
Mortality assumptions:		
Longevity at 65 for current pensioners:		
- men	23.3	23.0
- women	26.1	25.5
Longevity at 65 for future pensioners:		
- men	24.9	24.7
- women	27.8	27.2
RPI increases	3.3%	0.0%
CPI increases	2.2%	2.0%
Rate of increase in salaries	3.7%	3.0%
Rate of increase in pensions	2.2%	2.0%
Pension accounts revaluation rate	2.2%	2.0%
Rate for discounting scheme liabilities	2.4%	2.3%

5 NOTES TO THE BALANCE SHEET

The impact on the Defined Benefit Obligation in the scheme is:

	Increase in Assumption £000	Decrease in Assumption £000
Assumption adjustment:		
Discount rate (scheme liabilities) - increase/decrease by 0.1%	(1,433)	1,460
Salaries - increase/decrease by 0.1%	87	(86)
Pensions - increase/decrease by 0.1%	1,398	(1,370)
Longevity - increase/decrease by 1 year*	2,479	(2,459)

*A rating of +1 year means that members are assumed to follow the mortality pattern of the base table for an individual that is 1 year older than them

5.15.8 Impact on the council's cash flows

The objective of the Local Government Pension Scheme is to keep employers' contributions at a rate that is as constant as possible. Hampshire County Council has agreed a strategy with the actuary to achieve a level of 100% over the next few years and the next triennial valuation is due to be completed on 31 March 2022. Funding levels are monitored annually.

Benefits accrued up to 31 March 2014 were based on final salary and length of service. Changes to the structure of the LGPS from 1 April 2014 result in benefits accruing from that date being based on a career average salary but with various protections for those members in the scheme prior to the 1 April 2014.

It is anticipated to pay £1.440 million in expected contributions to the scheme in 2020/21.

5 NOTES TO THE BALANCE SHEET

5.16 EVENTS AFTER THE BALANCE SHEET DATE

The unaudited statement of accounts was authorised for issue by the S151 Officer on 26 August 2020. Events taking place after this date are not reflected in the financial statements or notes. Where events taking place before this date provided information about conditions existing at 31 March 2020, the figures in the financial statements and notes have been adjusted in all material respects to reflect the impact of this information.

The financial statements and notes have not been adjusted for the following events, which took place after 31 March 2020, as they provide information that is relevant to an understanding of the authority's financial position but do not relate to conditions at that date:

- The Covid-19 pandemic has had a significant impact on the Council's income, council tax and business rates for 2020/21, whilst the impact started in advance of the balance sheet date the impact is still very much ongoing to support local residents and businesses recovery. The cash flow position remains adequate as the Council hasn't had to specifically borrow to cover any cash deficit arising as a result of Covid-19.

5.17 GRANTS RECEIVED IN ADVANCE

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

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

5 NOTES TO THE BALANCE SHEET

The council has received a number of grants, contributions and donations that have yet to be recognised as income as they have conditions attached to them that will require the monies or property to be returned to the giver. The balances within Grants Received in Advance at the year-end are as follows:

	31 March 2019	31 March 2020
	£000	£000
Grampian Conditions	4,819	5,107
	4,819	5,107

These Grampian conditions prohibit development to begin until a specific action has been completed. If the development was cancelled these funds would be payable back to the developer.

6 NOTES TO THE CASH FLOW STATEMENT

6.01 OPERATING ACTIVITIES

The cash flows for operating activities include the following items:

	2018/19	2019/20
	£000	£000
Interest received	315	401
Interest paid	(270)	(260)

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

	2018/19	2019/20
	£000	£000
Depreciation and Amortisation	2,567	1,651
Impairment and downward valuations	(17)	3,130
Net book value of disposed assets	12	88
(Increase) / Decrease in Debtors	(1,308)	(367)
Increase / (Decrease) in Creditors	(962)	1,150
Increase / (Decrease) in Provisions	(143)	(31)
Movement in Pension Liability	973	842
Changes in fair value of investment properties	0	3
Movement in Fair Values of Financial instruments	(235)	36
Other non-cash items charged to the net surplus or deficit on the provision of services	2,246	286
	3,133	6,788

6 NOTES TO THE CASH FLOW STATEMENT

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

	2018/19	2019/20
	£000	£000
Proceeds from the sale of property, plant and equipment, investment property and intangible assets	(110)	(178)
Any other items for which the cash effects are investing or financing cash flows	(7,210)	(3,371)
	<u>(7,320)</u>	<u>(3,549)</u>

6.02 INVESTING ACTIVITIES

	2018/19	2019/20
	£000	£000
Purchase of property, plant & equipment, investment property and intangible assets	(304)	(7,884)
Purchases of short & long term investments	(1,000)	0
Other payments for investing activities	0	(5)
Proceeds from sale of property, plant & equipment, investment property and intangible assets	110	288
Proceeds from short & long term investments	0	1,000
Other receipts for investing activities	7,210	3,371
	<u>6,016</u>	<u>(3,230)</u>

6 NOTES TO THE CASH FLOW STATEMENT

6.03 FINANCING ACTIVITIES

	2018/19 £000	2019/20 £000
Other receipts from financing activities		
- Council Tax Preceptor Cash	0	743
- NNDR Cash Receipts	952	0
Repayment of short & long term borrowing	(713)	(1,321)
Other payments from financing activities		
- Council Tax Preceptor Cash	(783)	0
- NNDR Cash Payments	0	(77)
	<u>(544)</u>	<u>(655)</u>

6.04 RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

2019/2020	1 April 2019 £000	Financing Cash Flows £000	Acquisition £000	Other Non- Cash Changes £000	31 March 2020 £000
Long term borrowing	12,277	0	0	(1,269)	11,008
Short-term borrowing	1,372	(1,321)	0	1,326	1,377
Other (payments)/receipts for financing activities	169	(77)	743	0	835
	<u>13,817</u>	<u>(1,398)</u>	<u>743</u>	<u>57</u>	<u>13,220</u>

6 NOTES TO THE CASH FLOW STATEMENT

2018/19	1 April 2018	Financing Cash Flows	Acquisition	Other Non-Cash Changes	31 March 2019
	£000	£000	£000	£000	£000
Long term borrowing	13,532	0	0	(1,255)	12,277
Short-term borrowing	1,064	(713)	0	1,021	1,372
Other (payments)/receipts for financing activities	0	(783)	952	0	169
	<u>14,596</u>	<u>(1,496)</u>	<u>952</u>	<u>(235)</u>	<u>13,817</u>

7 ADDITIONAL NOTES TO THE FINANCIAL STATEMENTS

7.01 ACCOUNTING STANDARDS THAT HAVE BEEN ISSUED BUT HAVE NOT YET BEEN ADOPTED

The CIPFA Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 (the Code) requires changes in accounting policy to be applied retrospectively unless alternative transitional arrangements are specified in the Code. The Code requires an authority to disclose information relating to the impact of an accounting change that will be required by a new standard that has been issued but not yet adopted by the Code for the relevant financial year.

IFRS 16 Leases; will require local authorities that are lessees to recognise most leases on their balance sheets as right-of-use assets with corresponding lease liabilities (there is recognition for low-value and short-term leases). CIPFA/LASAAC have deferred implementation of IFRS 16 for local government to 1 April 2021. The impact of IFRS 16 is not known or reasonably estimable as at 31 March 2020.

IAS 28 Investments in Associates and Joint Ventures: Long term interests in associates with joint ventures. Prescribes the accounting for investments in associates and sets out the requirements for the application of the equity method when accounting for investments in associates and joint ventures. ... Distributions received from the investee reduce the carrying value of the investment.

Annual Improvements to IFRS Standards 2015-17 Cycle.

IAS 19 Employee Benefits: Plan amendments, curtailments or settlement. Prescribes the accounting treatment of short-term employee benefits, post-employment benefits, other long-term employee benefits and termination benefits. Short term benefits owing to an employee at the period end should be accrued.

IAS 40 Investment Property: Transfers of Investment Property; provides further explanation of the instances in which a property can be reclassified as investment property. This will have no impact on the Council as it already complies.

Amendments to IFRS 9 Financial Instruments: Prepayment Features with Negative Compensation; amends IFRS 9 to make clear that amortised cost should be used where prepayments are substantially lower than unpaid principal and interest. The Council has no loans to which this will apply.

IFRIC 22 Foreign Currency Transactions and Advance Consideration: clarifies the treatment of payments in a foreign currency made in advance of obtaining or delivering services or goods. The Council does not have any material transactions within the scope of the amendment.

IFRIC 23 Uncertainty over Income Tax Treatments, and amendments to IFRS 9 Financial Instruments: Prepayment Features with Negative compensation.

7 ADDITIONAL NOTES TO THE FINANCIAL STATEMENTS

It is anticipated that the above amendments will not have a material impact on the information provided in the statement of accounts.

7.02 CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

In applying the accounting policies set out within the notes in the Statement of Accounts the council has had to make certain judgements about complex transactions or those involving uncertainty about future events.

The critical judgements made in the Statement of Accounts are:

Future Funding

The 2016 funding settlement increased certainty with the offer of a four-year settlement to any council that wished to take it up, alongside indicative allocations for each year of the Spending Review period. Due to Covid-19, the planned implementation of the Fair Funding Review and Business Rates Retention have been pushed back by at least a year, which should give some stability in funding for a further year. The next Spending Review will be undertaken by the Chancellor of the Exchequer in autumn 2020 and the effect of this on local government funding is yet to be determined. The intention of all these future reforms is to put councils in control of their own finances, allowing them to respond efficiently to local needs.

Leases

The council classifies the leases it holds, both as a lessee and lessor, as either operating or finance leases. Under International Financial Reporting Standards the council is deemed to control assets that fall within contractual and other arrangements which involve the provision of a service using specific assets and which therefore are considered to contain a lease. The appropriate accounting policy for each lease has been applied to these arrangements (where they have been identified) and as a result additional assets are recognised as Property, Plant and Equipment in the council's Balance Sheet.

7.03 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 authority about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates. The items in the council's Balance Sheet at 31 March 2020 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

7 ADDITIONAL NOTES TO THE FINANCIAL STATEMENTS

Item	Uncertainties	Effect if actual results differ from assumptions
Property, Plant and Equipment	<p>Assets are depreciated over useful lives that are dependent on assumptions about the level of repairs and maintenance that will be incurred in relation to individual assets. The current economic climate makes it uncertain that the council may be able to sustain its current spending on repairs and maintenance, bringing into doubt the useful lives assigned to assets. However the council's assets are subject to a periodic revaluation and an annual impairment review and any changes in valuation are accounted for in the year that they occurred.</p> <p>The outbreak of Covid-19 has impacted global financial markets and as at the valuation date, less weight can be attached to previous market evidence to inform opinions of value. There is an unprecedented set of circumstances on which to base a judgement.</p> <p>Valuations are therefore reported on the basis of 'material valuation uncertainty' as per the RICS Red Book Global. Consequently, less certainty and a higher degree of caution should be attached to the valuation. At the current time, it is not possible to accurately predict the longevity and severity of the impact of Covid-19 on the economy. Therefore, values have been based on the situation prior to Covid-19, on the assumption that values will be restored when the real estate market becomes more fluid.</p>	<p>If the useful life of assets is reduced, depreciation increases and the carrying amount of the assets falls.</p> <p>It is estimated that the annual depreciation charge for buildings would increase by £92,000 for every year that useful lives had to be reduced.</p> <p>If the actual valuation differs from the assumptions made then these will be adjusted when the asset is revalued.</p>
Fair Value Measurement of Investment Properties	<p>Investment properties are revalued every year and, therefore, takes into account the current market conditions.</p> <p>At the current time, it is not possible to accurately predict the longevity and severity of the impact of Covid-19 on the economy. Therefore, values have been based on the situation prior to Covid-19, on the assumption that values will be restored when the real estate market becomes more fluid.</p>	<p>A 1% movement in the valuation of investment properties would equate to a movement of £63,501</p>

7 ADDITIONAL NOTES TO THE FINANCIAL STATEMENTS

Item	Uncertainties	Effect if actual results differ from assumptions
Pension Liability	<p>Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the council with expert advice about the assumptions to be applied.</p> <p>When the LGPS benefit structure was reformed in 2014, transitional protections were applied to certain older members close to normal retirement age. The benefits accrued from 1 April 2014 by these members are subject to an 'underpin' which means that they cannot be lower than what they would have received under the previous benefit structure. The underpin ensures that these members do not lose out from the introduction of the new scheme, by effectively giving them the better of the benefits from the old and new schemes.</p>	<p>The effects on the net pension liability for funded LGPS benefits of changes in individual assumptions can be measured. For instance, a 0.1% increase in the discount rate assumptions would result in a decrease in the pension liability of £1,433,000</p> <p>However, the assumptions interact in complex ways. During 2019/20, the council's actuaries advised that the net pension liability had increased by £4,033,000 as a result of estimates being corrected as a result of experience and decreased by £1,846,000 attributable to the updating of assumptions.</p>
Provisions	<p>The council has made provision in relation to National Non-Domestic Rate Appeals. This provision is based on an estimation of any future liability and the likelihood that these costs will be incurred.</p>	<p>If the estimates used in the calculation of the provision prove to be inaccurate then there will be further income or expenditure incurred by the General Fund via the Collection Fund.</p>
Arrears	<p>At 31 March 2020, the council had a balance of sundry (trade) debtors of £2,563,593. A review of significant balances suggested that an impairment of doubtful debts of £194,418 (8%) was appropriate. It is not certain that this impairment allowance would be sufficient as the council cannot assess with certainty which debts will be collected or not. The economic impact of the Covid-19 pandemic has made the estimation of debt impairment more difficult as there is more uncertainty about the economic viability of debtors and hence their ability to settle their debts.</p>	<p>If collection rates were to deteriorate, a doubling of the amount of the impairment of doubtful debts would require an additional £194,418 to set aside as an allowance from revenue. The council has earmarked £500,000 to help tackle the impact of Covid-19, in part it would be used to offset any impairments above which have already been allowed for.</p>

7 ADDITIONAL NOTES TO THE FINANCIAL STATEMENTS

7.04 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 the majority of its funding in the form of grants and prescribes the terms of many of the transactions that the council has with other parties (e.g. housing benefits). Details of transactions with government departments are set out in the previous note, Grant Income.

Elected Members of the council have direct control over the council's financial and operating policies. Members are required to observe the Code of Conduct for Councillors, register financial interests in the council's register (maintained under section 81(1) of the Local Government Act 2000) and register the receipt of any gifts/hospitality. There were no material receipts of any gift or hospitality to disclose for 2019/20.

As of the date of the Responsible Finance Officer signing the accounts, there were 4 returns from elected members outstanding. From those who had returned their declaration, there were no material related parties to disclose.

Officers are required to observe the Code of Conduct for Officers and register the receipt of any gifts/hospitality. The council had no material related party transactions with officers during 2019/20.

Related party transactions with the precepting bodies and the pension fund are disclosed in the Defined Benefit Pension Scheme note within these accounts.

The council had no significant interest in companies.

Amounts due to or from those parties able to control or influence the council or to be controlled/ influenced by the council are as follows:

7 ADDITIONAL NOTES TO THE FINANCIAL STATEMENTS

This table has been restated to include collection fund figures on the council's Balance Sheet and exclude borrowing from Central Government and Hampshire County Council.

	Restated 31 March 2019 £000	31 March 2020 £000
Amounts due to Central Government	(1,912)	(2,337)
Amounts due to Hampshire County Council	(134)	(107)
Amounts due from Central Government	344	187
Amounts due from Hampshire County Council	668	244

7.05 CONTINGENT ASSETS AND LIABILITIES

Contingent assets and liabilities are not included within the Comprehensive Income and Expenditure Statement or Balance Sheet, but are disclosed by way of a note to the accounts where a receipt or some other economic benefit is probable (contingent asset), or where there is a possible obligation that may require payment or other transfer of economic funds (contingent liability).

The council has no contingent assets and liabilities to report.

7.06 NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS

7.06.1 Disclosure and Nature and Extent of Risk arising from Financial Instruments

The council's activities expose it to a variety of financial risks, the key risks are:

- Credit risk – the possibility that other parties might fail to pay amounts due to the council.
- Liquidity risk – the possibility that the council might not have funds available to meet its commitments to make payments.
- Market risk – the possibility the financial loss might arise for the council as a result of changes in such measures as interest rates movements.

7 ADDITIONAL NOTES TO THE FINANCIAL STATEMENTS

The council's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the resources available to fund services. Risk management is carried out by a treasury team, under policies approved by cabinet in the annual Treasury Management Strategy. The council provides written principles for overall risk management, as well as written policies covering specific areas, such as interest rate risk, credit risk and the investment of surplus cash.

7.06.2 Credit risk

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

The risk is minimised through the Annual Investment Strategy, which requires that deposits are not made with financial institutions unless they meet identified minimum credit criteria, as laid down by Fitch, Moody's and Standard & Poor's Rating Services. The Annual Investment Strategy also imposes a maximum sum and time to be invested with a financial institution located within each category

The Council's Treasury Management Advisors Link Asset Services, give a credit rating based on the latest market information.

This Council applies the creditworthiness service provided by Link Asset Services. This service employs a sophisticated modelling approach utilising credit ratings from the three main credit rating agencies - Fitch, Moody's and Standard and Poor's. The credit ratings of counterparties are supplemented with the following overlays:

- credit watches and credit outlooks from credit rating agencies;
- CDS spreads to give early warning of likely changes in credit ratings;
- Sovereign ratings to select counterparties from only the most creditworthy countries.

This modelling approach combines credit ratings, credit Watches and credit Outlooks in a weighted scoring system which is then combined with an overlay of CDS spreads for which the end product is a series of colour coded bands which indicate the relative creditworthiness of counterparties. These colour codes are used by the Council to determine the suggested duration for investments. The Council will therefore use counterparties within the following durational bands:

- Yellow 5 years *
- Dark pink 5 years for Enhanced Money Market Funds (EMMFs) with a credit score of 1.25
- Light pink 5 years for Enhanced Money Market Funds (EMMFs) with a credit score of 1.5

7 ADDITIONAL NOTES TO THE FINANCIAL STATEMENTS

- Purple 2 years
- Blue 1 year (only applies to nationalised or semi nationalised UK Banks)
- Orange 1 year
- Red 6 months
- Green 100 days
- No colour not to be used
- Money Market Funds with AAA rating
- UK Government Gilts with AA rating
- A maximum of £5m to be invested with any single institution.

The Council's maximum exposure to credit risk in relation to its investments in banks and building societies of £5m cannot be assessed generally as the risk of any institution failing to make interest payments or repay the principal sum will be specific to each individual institution. Recent experience has shown that it is rare for such entities to be unable to meet their commitments. A risk of irrecoverability applies to all of the Council's deposits, but there was no evidence at 31 March 2020 that this was likely to crystallise.

The table below summarises the nominal value of the Council's investment portfolio at 31 March 2020 with each level of counterparty. All investments were made in line with the Council's approved credit rating criteria at the time of placing the investment and the Council does not expect any losses from non-performance by any of its counterparties in relation to deposits and bonds.

Credit Risk – Investments and Cash & Cash Equivalents

	Amount at 31 March 2020 £000
AAA rated counterparties	14,000
A+ rated counterparties	15,760
	<u>29,760</u>

7 ADDITIONAL NOTES TO THE FINANCIAL STATEMENTS

The Council does not generally allow credit for customers. As per the Code of Practice requirements, the disclosure below includes details only of debtors that have arisen as a result of trading activities. Balances and transactions arising from statutory functions (i.e. Council tax and NNDR payments) are excluded from this disclosure note as they have not arisen from contractual trading activities

The past due but not impaired amount can be analysed by age as follows:

Credit Risk - Debtors

	31 March 2019 £000	31 March 2020 £000
Less than three Months	257	1,466
Three to six months	48	439
Six months to one year	55	332
More than one year	150	327
	510	2,564

7.06.3 Liquidity risk

The council has a comprehensive cash flow management system that seeks to ensure that cash is available as needed. If unexpected movements happen, the council has ready access to borrowings from the money markets and the Public Works Loans Board. There is no significant risk that it will be unable to raise finance to meet its commitments under financial instruments. Instead, the risk is that the authority will be bound to replenish a significant proportion of its borrowings at a time of unfavourable interest rates. The authority sets limits on the proportion of its fixed rate borrowing during specified periods. The strategy is to ensure that no more than 50% of loans are due to mature within any rolling three-year period through a combination of careful planning of new loans taken out and (where it is economic to do so) making early repayments. Previous year restatement includes correction of accounting treatment for Soft Loan received from Hampshire County Council. The maturity analysis of financial liabilities is as follows:

7 ADDITIONAL NOTES TO THE FINANCIAL STATEMENTS

	31 March 2019	31 March 2020
	£000	£000
Less than one year	1,372	1,377
Between one and five years	5,087	4,184
Between five and ten years	1,913	1,955
Between ten and fifteen years	2,133	2,180
Between fifteen and twenty years	2,378	2,431
More than twenty years	766	258
	13,648	12,385

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

7.06.4 Market risk

The council is exposed to risk in terms of its exposure to interest rate movements on its borrowings and investments. Movements in interest rates have a complex impact on the council. For instance, a rise in interest rates would have the following effects:

Borrowings at fixed rates – the fair value of the liabilities borrowings will fall
 Investments at variable rates – the interest income credited to the Surplus or Deficit on the Provision of Services would rise
 Investments at fixed rates – the fair value of the assets would fall.

Borrowings are not carried at fair value, so nominal gains and losses on fixed rate borrowings would not impact on the Surplus or Deficit on the Comprehensive Income and Expenditure Statement. However, changes in interest payable and receivable on variable rate borrowings and investments would be posted to the Comprehensive Income and Expenditure Statement and affect the General Fund balance. Movements in the fair value of fixed rate investments that have a quoted market price will be reflected in Other Comprehensive Income and Expenditure.

7 ADDITIONAL NOTES TO THE FINANCIAL STATEMENTS

The council has a number of strategies for managing interest rate risk. The Annual Treasury Management Strategy draws together council's prudential and treasury indicators and its expected treasury operations, including an expectation of interest rate movements. From this Strategy a treasury indicator is set which provides maximum limits for fixed and variable interest rate exposure. The central treasury team will monitor market and forecast interest rates within the year to adjust exposures appropriately. For instance during periods of falling interest rates, and where economic circumstances make it favourable, fixed rate investments may be taken for longer periods to secure better long term returns, similarly the drawing of longer term fixed rates borrowing would be postponed. The risk of interest rate loss is partially mitigated by Government grant payable on financing costs.

As at 31 March 2020 there was no material exposure to changes in interest rates due to the Bank of England base rate dropping to a record low of 0.10% as at the 19 March 2020. Therefore, had the interest rate been 1% higher (or conversely 1% lower), there would be no material impact on other financial statements with these accounts.

7.07 FURTHER ACCOUNTING POLICIES

The majority of the accounting policies which the Council adopts have been put before their respective statements and notes to aid the readability and understanding of this document. However there are a few which cover the accounts as a whole and do not necessarily relate to just one area, these are detailed below.

These accounts have been prepared on a going concern basis which means that the functions of the Council will continue in operational existence for the foreseeable future

Accruals of Income and Expenditure – Activity is accounted for in the year it takes place, not simply when cash payments are made or received. In particular:

- Revenue from sale of goods is recognised when the council transfers the significant risks and rewards of ownership to the purchaser and it is probable that economic benefits or service potential associated with the transaction will flow to the council.
- Revenue from provision of services is recognised when the council can measure reliably the percentage of completion of the transaction and it is probable that economic benefits or service potential 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.

7 ADDITIONAL NOTES TO THE FINANCIAL STATEMENTS

- Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when the payments are made.

Exceptional Items - When items of income and expense are material, their nature and amount is disclosed separately, either on the face of the Comprehensive Income and Expenditure Statement or in the Notes to the Accounts.

Investments - The council accounts for investments in accordance with the Treasury Management Strategy, which is set annually.

The council's investment priorities are:

- the security of capital and
- the liquidity of its investments
- the yield on maturity of the investment

Minimum revenue provision (MRP)

Regulations 27 and 28 in the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 requires the council to make an annual charge to revenue to contribute towards the reduction in its overall borrowing requirement - known as a Minimum Revenue Provision.

The council has adopted the asset life method of calculating MRP where the charge is spread in equal annual instalments over the life of each asset that creates a borrowing requirement. MRP commences in the financial year following either the year in which the expenditure was incurred or the year when the asset becomes operational.

Any interest costs to the Comprehensive Income and Expenditure Statement in relation to finance leases will also be mitigated by a corresponding MRP adjustment.

Overheads

The costs of overheads and support services are charged to those services that benefit from the supply or service. The total absorption costing principle is used – the full cost of overheads and support services are shared between users in proportion to the benefits received.

Prior Period Adjustments, changes in Accounting Policies and Estimates and Errors

Prior period adjustments may arise as a result of a change in accounting policies 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.

7 ADDITIONAL NOTES TO THE FINANCIAL STATEMENTS

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 financial performance. Where a change is made, it is applied retrospectively (unless stated otherwise) by adjusting opening balances and comparative amounts for the prior period as if the new policy had always applied.

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

Revenue recognition - Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net worth. Revenue is recognised when it is probable that future economic benefits will flow to the council and these benefits can be measured reliably.

IFRS 15 (Revenue from Contracts with Customers) is applied in accounting for revenue arising from the following transactions and events:

- the sale of goods
- the rendering of services
- interest, royalties and dividends.
- non-exchange transactions (i.e. council tax)
- where previously a liability had been recognised (i.e. creditor) on satisfying the revenue recognition criteria

The amount of revenue arising on a transaction is usually determined by agreement between the council and the buyer or user of the asset. It is measured at the fair value of the consideration received or receivable taking into account the amount of any trade discounts and volume rebates allowed by the council.

VAT - Value Added Tax is excluded from both revenue and capital in terms of both income and expenditure except where the council is not able to recover VAT on expenditure. HM Revenue and Customs allow Local authorities to recover the majority of VAT incurred.

7 ADDITIONAL NOTES TO THE FINANCIAL STATEMENTS

7.08 GOING CONCERN

Section 1 – Underlying principle

These accounts have been prepared on a going concern basis that the authority will continue in operational existence for the foreseeable future.

The provisions in the Code of Audit Practice in respect of going concern reporting requirements reflect the economic and statutory environment in which local authorities operate. These provisions confirm that, as authorities cannot be created or dissolved without statutory prescription, they must prepare their financial statements on a going concern basis of accounting. Local authorities carry out functions essential to the local community and are themselves revenue-raising bodies (with limits on their revenue-raising powers arising only at the discretion of central government). If an authority were in financial difficulty, the prospects are thus that alternative arrangements might be made by central government either for the continuation of the services it provides or for assistance with the recovery of a deficit over more than one financial year. As a result of this, it would not therefore be appropriate for local authority financial statements to be provided on anything other than a going concern basis. Accounts drawn up under the Code therefore assume that a local authority's services will continue to operate for the foreseeable future.

Section 2 – Current financial position

The council recognises the financial position at the end of March 2020 was stable with Total Reserves over £22m. The lockdown commenced on 24th March 2020 and therefore had minimal impact for the financial year 2019/20.

Section 3 & 4 – Impact of Covid

In February 2020 the council set a balanced budget for 2020-21.

However, since the budget was set, the emergence of Covid-19 has fundamentally changed the financial regime for a period of at least 6 months up to the end of September 2020. During this period, the council has incurred approximately £0.548m of additional expenditure and has seen income fall by £1.161m where services such as leisure and parking were closed and also reductions in planning income. A gradual return of most income streams is anticipated, although not necessarily back to the levels previously budgeted for.

The forecast underspend in 2020/21 is around £0.369m, with a worst-case scenario of around an overspend of £0.062m. The council has received £1.266m to date from Government as general grant funding towards the cost of Covid-19. Additionally, £0.319m of council tax support, £15.43m of business grant funding and £8.3m of business rate reliefs will be provided by the council, fully funded by the Government. Lost income is also being partly reimbursed by the government. However, the council will have to meet the first 5% of any budgeted loss, will then be reimbursed at the rate of 75p in the pound and will also have to bear any commercial losses.

7 ADDITIONAL NOTES TO THE FINANCIAL STATEMENTS

All service areas are reviewing their budgets during 2020 to identify options for identifying and delivering efficiency savings and / or generating income, with the aim of setting a balanced budget in 2021/22. It is anticipated that traditional income streams will be reduced but compensated for by commercial income from recent investments.

Any in-year losses will need to be met from General Reserves.

The anticipated reduction in Income for 2020/21 will be between £0.369m and £0.431m.

The estimated impact for our reserves is therefore:

- General Fund as per the accounts £6.380m. This would reduce to £5.9 (worse case).
- Earmarked reserves as per the accounts £16.176m

This demonstrates that the general balances are projected to stay about the s151 officer's minimum level of £1.297m, and the council holds sufficient reserves to remain a going concern.

Section 5 – Cash position

The council had a cash balance of £17.155m at the end of September 2020 a reduction of £1.605m, compared to the 31 March 2020 year-end figure of £18.76m. Whilst there is uncertainty on income, the council remains confident in its ability to maintain sufficient cash for its services throughout the medium term. The council has undertaken cashflow forecasting for the period through to the end of March 2022, covering beyond the 12-month going concern period. This shows that the cash balances remain positive throughout the period, and there is no forecast need to borrow through that period for cash management purposes.

In a 'stressed' case scenario whereby income is constrained further in the event of a second wave, and income recovering only very slowly, the council has sufficient levels of reserves and investments that it would not run out of cash.

Furthermore, the council is continually assessing the 2020-21 capital programme, although no postponements have been agreed, this is an option if further protection to the levels of cash and useable reserves were needed.

Section 6 – Conclusion

These accounts have been prepared on a going concern basis, following the projection of an overspend in 2020-21 that is well within the level of useable reserves and is planning to produce a balanced budget in 2021-22.

8 COLLECTION FUND

The Collection Fund Statement is a record of revenue expenditure and income relating to the council's role as a billing council for council tax and National Non-Domestic Rates (NDR) in accordance with the requirements of section 89 of the Local Government Finance Act 1988. Its primary purpose is to show the transactions of the billing council in relation to the collection from taxpayers of tax due and distribution of the same to local authorities (including itself) and the Government. Collection Fund Statement items are only included within the Comprehensive Income and Expenditure Account and Balance Sheet when they relate to the council's own entitlements or commitments as distinct from those of Local Government or Central Government partners. Amounts owed to or owing by Taxpayers at the Balance Sheet Date are therefore not shown in the council's Balance Sheet with the exception of the proportion of council tax to which the council itself is entitled.

It also shows how the income is distributed between Hart District Council, Hampshire County Council, Hampshire Police and Crime Commissioner and Hampshire Fire and Rescue.

Billing authorities in England are required by statute to maintain a separate fund for the collection and distribution of amounts due in respect of council tax and NDR. The fund key features relevant to accounting for council tax in the core financial statements are:

- In its capacity as a billing council the council acts as agent; it collects and distributes council tax income on behalf of the major preceptors and itself.
- While the council tax income for the year credited to the Collection Fund is the accrued income for the year regulations determine when it should be released from the Collection Fund and transferred to the General Fund of the billing council or paid out of the Collection Fund to major preceptors.
- The council tax income included in the Comprehensive Income and Expenditure Account for the year shall be the accrued income for the year. The difference between the income included in the Comprehensive Income and Expenditure Account and the amount required by regulation to be credited to the Collection Fund shall be taken to the Collection Fund Adjustment Account and included as a reconciling item in the Movement in Reserves Statement.

Since the collection of council tax and NDR Income is in substance an agency arrangement:

- Cash collected by the billing council from council tax and Non-domestic Rate debtors belongs proportionately to the billing council and the major preceptors. There will be therefore a debtor/creditor position between the billing council and each major preceptor to be recognised since the net cash paid to each major preceptor in the year will not be its share of the cash collected from council taxpayers and non-domestic rate payers.

8 COLLECTION FUND

	Council Tax 2018/19 £000	Non-Domestic Rates 2018/19 £000	Total Collection Fund 2018/19 £000	Council Tax 2019/20 £000	Non-Domestic Rates 2019/20 £000	Total Collection Fund 2019/20 £000
Amounts required by statute to be credited to the Collection Fund						
Council Tax Receivable (net of benefits' discounts for prompt payment and transitional relief)	(68,020)	N/A	(68,020)	(72,019)	N/A	(72,019)
Transitional protection payments	N/A	(183)	(183)	3	390	393
Non Domestic Rates Receivable (net of discretionary and mandatory reliefs)	N/A	(29,926)	(29,926)	N/A	(30,569)	(30,569)
	(68,020)	(30,109)	(98,129)	(72,016)	(30,179)	(102,195)
Amounts required by statute to be debited to the Collection Fund						
Precepts/demands for council tax and shares of non-domestic rating income						
- Hampshire County Council	48,510	2,766	51,276	50,346	2,744	53,090
- Hampshire Police and Crime Commissioner	7,168	N/A	7,168	8,200	N/A	8,200
- Hampshire Fire and Rescue Service	2,655	307	2,963	2,756	305	3,061
- Hart District Council	9,848	12,293	22,141	10,228	12,197	22,425
Payment with respect to central government share of NDR (net of allowable deductions)	N/A	15,367	15,367	N/A	15,246	15,246
Impairment of Debts/Appeals						
- write-off of uncollectable debts	11	0	11	150	(282)	(133)
- change in the impairment allowance for doubtful debts	173	130	303	46	123	170
- change in allowance for loss of income on appeals	N/A	(357)	(357)	N/A	(79)	(79)
Charge to the General Fund for allowable collection costs for non-domestic rates	N/A	100	100	N/A	99	99
(Surplus) or Deficit for Year	344	497	841	(290)	174	(116)

Continued on next page

8 COLLECTION FUND

Continued from previous page

	Council Tax 2018/19 £000	Non-Domestic Rates 2018/19 £000	Total Collection Fund 2018/19 £000	Council Tax 2019/20 £000	Non-Domestic Rates 2019/20 £000	Total Collection Fund 2019/20 £000
Contribution towards previous year's estimated surplus or deficit:						
- Hampshire County Council	305	(186)	119	(230)	24	(206)
- Hampshire Police and Crime Commissioner	45	N/A	45	(34)	N/A	(34)
- Hampshire Fire and Rescue Service	17	(21)	(3)	(13)	3	(10)
- Hart District Council	64	(826)	(762)	(47)	107	60
- Central Government	N/A	(1,032)	(1,032)	N/A	134	134
Movement on the fund	775	(1,567)	(792)	(614)	442	(172)
Opening fund balance	(375)	1,840	1,466	400	273	674
Closing fund balance	400	273	673	(214)	715	501

8 COLLECTION FUND

8.1 COUNCIL TAX

The average council tax at Band D set by the council was as follows:

	2018/19	2019/20
	£	£
Hampshire County Council	1,200.96	1,236.87
Hampshire Police and Crime Commissioner	177.46	201.46
Hampshire Fire and Rescue Service	65.74	67.71
Hart District Council	166.84	171.84
Town and Parish Councils	66.41	79.44
	<u>1,677.41</u>	<u>1,757.32</u>

8 COLLECTION FUND

The amount of income generated in 2019/20 by each council tax band was as follows:

Band	Chargeable Dwellings	Band Multiplier	Band D Equivalent	Council Tax income per band £
A	559	6/9	303.40	551,348
B	1,704	7/9	1,057.10	1,920,994
C	7,580	8/9	5,940.60	10,795,438
D	8,110	9/9	7,718.30	14,025,928
E	7,321	11/9	8,797.90	15,987,810
F	6,501	13/9	9,338.80	16,970,749
G	3,632	15/9	6,031.40	10,960,442
H	222	18/9	444.00	806,850
			39,631.50	
Class O Exempt Properties			633.80	
Plus allowance for new properties and ending of discounts 0.5%			954.02	
Less allowance for properties being demolished and additional discounts 0.01%			0.00	
Assumed losses on collection 1.3%			(515.21)	
Tax Base (equivalent Band D) approved by council			40,704.11	

8 COLLECTION FUND

8.2 INCOME COLLECTABLE FROM BUSINESS RATE PAYERS

The council collects non-domestic rates for its area based on local rateable values multiplied by a uniform national rating multiplier. The total NDR Rateable Value as at 31 March 2020 was £74,213,954 (£75,945,388 as at 31 March 2019)

The non-domestic rate multiplier for 2019/20 was 49.1 pence for qualifying properties of less than £51,000 rateable value and 50.4 pence for qualifying properties of more than £51,000 rateable value (2018/19 48.0 pence and 49.3 pence respectively).

9 GROUP ACCOUNT

Under the terms of IFRS3 where the council has an interest in any other entity, it is required to prepare a Group Income and Expenditure Account and Group Balance Sheet. The council holds no interest in any other entity at the balance sheet date and therefore no group accounts have been produced.

Where either the council, or its Elected Members or Senior Officers are connected with any other entity that it transacts any business with, it is required to disclose these as related party interests. These are shown in the Related Party Transactions note of these accounts.

10.0 GLOSSARY

Accounts

A generic term for statements setting out details of income and expenditure or assets and liabilities or both in a structured manner. Accounts may be categorised by the type of transactions they record e.g. revenue accounts, capital accounts or by the purpose they serve e.g. management accounts, final accounts, balance sheets.

Accounting policies

Those principles, bases, conventions, rules and practices applied by an entity that specify how the effects of transactions and other events are to be reflected in its financial statements through:

- (a) recognising
- (b) selecting measurement bases for, and
- (c) presenting assets, liabilities, gains, losses and changes to reserves.

Accounting policies define the process whereby transactions and other events are reflected in financial statements. For example, an accounting policy for a particular type of expenditure may specify whether an asset or a loss is to be recognised; the basis on which it is to be measured; and where in the revenue account or balance sheet it is to be presented.

Accounting standards

A set of rules explaining how accounts are to be measured, maintained and reported. By law, local authorities must follow 'proper accounting practices', which are set out in Acts of Parliament and in professional codes and statements of recommended practices. These standards make comparability, among other things, possible.

Accrual

The recognition of income and expenditure as it is earned or incurred, as opposed to when cash is received or paid.

Actuarial gains and losses

For a defined benefit pension scheme, the changes in actuarial deficits or surpluses that arise because:

- (a) events have not coincided with the actuarial assumptions made for the last valuation (experience gains or losses); or
- (b) the actuarial assumptions have changed.

10 GLOSSARY

Amortisation

The reducing of the value of assets to reflect their reduced worth over time. The term means the same as depreciation, though in practice amortisation tends to be used for the write-off of intangible assets.

Assets

These can either be:

Long term (non-current), tangible assets that give benefits to the authority for more than one year.

Property, Plant and Equipment, assets which are held for use in the production or supply of goods and services, for rental to other, or for administrative purposes.

Investment property is property (land or a building, or part of a building, or both) held solely to earn rentals or for capital appreciation, or both.

Intangible assets, these are usually stand-alone intellectual property rights such as software licences that, although they have no physical substance are right to show on the balance sheet where they have been capitalised as being of benefit for more than the year of account. Where software is integral to the running of hardware it is properly included in the value of the hardware.

Audit – internal

The council has an internal audit service, they have a wide ranging role and are responsible for auditing key financial systems and all other activities of the council on a rolling programme. They make recommendations to improve internal controls, safeguard assets and secure value for money.

Audit – external

Our external auditor is Ernst and Young LLP. They report to the council on a number of issues, but in this context they provide assurance to the council that this statement of accounts ‘presents fairly’ the council’s financial affairs and position.

Balance sheet

A statement of the recorded assets, liabilities and other balances at a specific date at the end of an accounting period.

Budget

A forecast of the Council’s planned expenditure. The level of council tax is set by reference to detailed revenue budgets. Budgets are reviewed during the course of the financial year to take account of pay and price changes, and other factors affecting the level or cost of services.

Cabinet

The Cabinet is the executive board responsible for undertaking all of the council's functions, except those functions which are reserved to the full council or delegated to committees or officers. When the executive councillors meet collectively they are known as the Cabinet.

Capital Adjustment Account

This account includes the amalgamated balances of the Property, Plant and Equipment Restatement Account and the Capital Financing Account at 31 March and holds financing transactions relating to capital expenditure.

Capital charges

Charges made to service expenditure accounts based on the service's use of property, plant and equipment assets (depreciation and impairment) plus credits relating to government grants and capital contributions used to pay for those assets.

Capital expenditure

Expenditure on the acquisition or enhancement of property, plant and equipment assets, Revenue Expenditure Financed by Capital under Statute (REFCUS), advances (loans) or grants to other individuals/organisations.

Capital receipts

Income received from the sale of property, plant and equipment assets.

Central services to the public

This includes the costs of local tax collection, elections, emergency planning, local land charges and any general grants.

CIPFA

CIPFA is the Chartered Institute of Public Finance and Accountancy, which is the leading professional accountancy body for public services.

Code of Practice on Local Authority Accounting in the United Kingdom

Issued by CIPFA, this is the guidance which is followed when preparing these statements. It provides expert support in dealing practically with the preparation of the year-end accounts and is the guidance by which every local authority must follow.

Collection fund

The fund into which are paid amounts of council tax and non-domestic rates and from which are met demands by county and district councils and payments to the national non-domestic rates pool.

Community assets

Community assets are a class of property, plant and equipment assets which are expected to be held by the council in perpetuity. Examples include parks, historic buildings and works of art.

Corporate and democratic core

Comprises all activities which local authorities engage in because they are elected, multi-purpose authorities. It includes the costs of the Head of the Paid Service, costs of treasury management and bank charges and the costs of democratic representation.

Council tax

A local tax set by councils to help pay for local services. There is one bill per dwelling based on its relative value compared to others in the area. There are discounts, including where only one adult lives in the dwelling. Bills will also be reduced for properties with people on low incomes, for some people with disabilities and some other special cases.

Current service cost (pensions)

The increase in the present value of a defined scheme's liabilities, expected to arise from employee service in the current period.

Current Value

The amount at which would be paid for the asset in its existing use.

Deferred credits

Income still to be received (or applied in the accounts) where deferred payments (or application) have been allowed. For example the principal outstanding from the sale of former council houses (deferred capital receipts).

Defined Benefit scheme

A pension or other retirement benefit scheme other than a defined contribution scheme. Usually, the scheme rules define the benefits independently of the contributions payable, and the benefits are not directly related to the investments of the scheme. The scheme may be funded or unfunded (including notionally funded).

10 GLOSSARY

Depreciation

Depreciation is the measure of the consumption or wearing out of the useful economic life of a property, plant and equipment asset.

Events after the balance sheet date

Significant events, favourable and unfavourable, that occur between the Balance Sheet date and the date when the Statement of Accounts is authorised for issue.

Fair value

The price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Finance lease

A lease that transfers substantially all of the risks and rewards of ownership of a property, plant and equipment asset to the lessee.

General Fund (GF)

This is the primary revenue account which records the cost of providing the majority of the council's services.

Housing Benefit

The housing benefit scheme is a national scheme administered at a local level by the council on the behalf of the Department for Work and Pensions. It is a means-tested service where the council can pay all, or part of, a household's rent or council tax, or both.

Housing benefit subsidy

The government reimburses the Council for most of the housing benefit payments made to residents plus an allowance to cover the costs of administering the scheme.

International Accounting Standard 19 – Employee Benefits

This Standard is based on the 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.

Impairment

A reduction in the value of a property, plant and equipment asset below its carrying amount on the balance sheet.

International financial reporting standards (IFRS)

Since 2010/11 the Council has had to prepare its statements in line with International Financial Reporting Standards. On implementation, this resulted in a significant change to the way that budgets and accounts are prepared with different accounting treatment being applied to asset valuations, leases, some accruals and derivatives.

Lease

An agreement whereby the lessor conveys to the lessee in return for a payment or series of payments the right to use an asset for an agreed period of time.

Liabilities

Amounts the authority either owes or anticipates owing to others, whether they are due for immediate payment or not.

Minimum revenue provision (MRP)

The minimum amount that the council must charge to the revenue account in the year in respect of the repayment of principal of borrowing for capital purposes.

National non-domestic rates (NNDR) also known as Business Rates

The form of local taxation charged on non-residential premises at a level set by central government.

Net Book Value

The amount at which property, plant and equipment assets are included in the balance sheet i.e. their historical cost or fair value less the cumulative amounts provided for depreciation and impairment.

Net service expenditure

Comprises of all expenditure less all income, other than income from council tax and revenue support grant, in respect of a particular service.

Non-distributed costs

Overheads for which no user now benefits and should not be apportioned to services. Costs generally included under this heading are those arising from early retirement payments to the pension fund.

10 GLOSSARY

Operating lease

A lease agreement in which substantially all of the risks and rewards of ownership of a property, plant and equipment asset remain with the lessor.

Outturn

The final total expenditure and income amount in any financial year.

Overheads

The costs of overheads and support services are charged to those services that benefit from the supply or service. The total absorption costing principle is used – the full cost of overheads and support services are shared between users in proportion to the benefits received, with the exception of:

Corporate and Democratic Core – costs relating to the Council's status as a multi-functional, democratic organisation.

Non-distributed Costs – the cost of discretionary benefits awarded to employees retiring early and impairment losses chargeable on Assets Held for Sale.

Past service cost

The increase in the present value of the pension scheme liabilities, related to employee service in prior periods arising in the current period as a result of the introduction of, or improvement to, retirement benefits.

Precept

The charge made by another authority on the council to finance its net expenditure. The council currently has the following precepting authorities: Hampshire County Council, Police and Crime Commissioner for Hampshire, Hampshire Fire and Rescue Authority and all the town and parish councils in the district.

Prior period adjustments

The adjustments applicable to prior years arising from the correction of material errors.

Provisions

Amounts set aside for liabilities of uncertain timing or amount that have been incurred.

Related parties

This is defined under Financial Reporting Standard 8. The council is required to disclose material transactions with related parties, which can include central government, subsidiary and associated companies, the Pension Fund, other councils, and chief and senior officers. IAS24 requires attention to be drawn to the possibility that the reported financial position may have been affected by the existence of related parties and by material transactions with them. Two or more parties are related parties when at any time during the financial period:

- (a) one party has direct or indirect control of the other; or
- (b) the parties are subject to common control from the same source; or
- (c) one party has influence over the financial and operational policies of the other party to the extent that the other party might be inhibited from pursuing at all times its own separate interests; or
- (d) the parties, in entering a transaction, are subject to influence from the same source to such an extent that one of the parties to the transaction has subordinated its own separate interest.

Remuneration

All sums paid to or receivable by an employee and sums due by way of expenses allowances and the money value of any other benefits received other than in cash (excludes employer pension contributions).

Reserves

The general capital and revenue balances of the council. There are two types of reserves which might be described as either available or not available to finance expenditure. Revenue reserves which result from monies being set aside or surpluses or delayed expenditure can be spent or earmarked at the discretion of the council (e.g. General Fund). The capital receipts reserve is also available to the extent allowed for by statute. However, other capital reserves are not available to meet expenditure, e.g. the capital adjustment account.

10 GLOSSARY

Revaluation reserve

This account includes transactions relating to the revaluation and impairment of the councils assets.

Revenue Expenditure

Day to day expenditure incurred in the provision of services including salaries and wages, transport and goods and services.

Revenue Expenditure Financed by Capital under Statute (REFCUS)

A type of capital expenditure which may be deferred but which does not give rise to tangible assets. Examples are renovation grants and disabled facilities grants (grants to private individuals and companies to improve housing standards) and capital grants to other organisations.

Revenue Support Grant

A historic grant that used to be paid by the government in support of the Council's revenue expenditure, as part of the Formula Grant.

Section 151 Officer

Another term to describe the Statutory Chief Financial Officer of the council with responsibilities as set out in the Statement of Responsibilities for the Statement of Accounts and within Section 151 of the Local Government Act.

11 INDEPENDENT AUDITOR'S REPORT

Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions. The maintenance and integrity of the Hart District Council web site is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site.

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

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF HART DISTRICT COUNCIL

Opinion

We have audited the financial statements of Hart District Council for the year ended 31 March 2020 under the Local Audit and Accountability Act 2014. The financial statements comprise the:

- Comprehensive Income and Expenditure Statement,
- Movement in Reserves Statement,
- Balance Sheet,
- Cash Flow Statement,
- Collection Fund, and
- The related notes 1 to 7 of the Authority's Financial Statements, notes 8 of the Collection Fund, and note 9.

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 2019/20.

In our opinion the financial statements:

- give a true and fair view of the financial position of Hart District Council as at 31 March 2020 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 2019/20.

Basis for opinion

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

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

Conclusions relating to going concern

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

- the Head of Corporate Resources (S151 Officer)'s use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Head of Corporate Resources (S151 Officer) has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Authority's ability to continue to adopt the going concern basis of

accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The other information comprises the information included in the Statement of Accounts, other than the financial statements and our auditor's report thereon. The Head of Corporate Resources (S151 Officer) is responsible for the other information.

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

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

We have nothing to report in this regard.

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

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

In our opinion, based on the work undertaken in the course of the audit, having regard to the guidance issued by the Comptroller and Auditor General (C&AG) in April 2020, we are satisfied that, in all significant respects, Hart District Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2020.

Matters on which we report by exception

We report to you if:

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

We have nothing to report in these respects

Responsibility of the Head of Corporate Resources (S151 Officer)

As explained more fully in the Statement of Responsibilities set out on page 15, the Head of Corporate Resources (S151 Officer) 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 2019/20, and for being satisfied that they give a true and fair view.

In preparing the financial statements, the Head of Corporate Resources (S151 Officer) is responsible for assessing the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Authority either intends to cease operations, or have no realistic alternative but to do so.

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General (C&AG) in April 2020, as to whether Hart District Council had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether Hart District Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2020.

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, Hart District Council had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

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

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

Certificate

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

Use of our report

This report is made solely to the members of Hart District Council, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and for no other purpose, as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

Kevin Suter
Ernst + Young LLP

Kevin Suter (Key Audit Partner)
Ernst & Young LLP (Local Auditor)
Southampton
26 November 2020