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Foreword to the accounts for the year ended 31st March, 2006 by the Head of Resources

In accordance with statutory obligations and the Code of Practice on Local Authority Accounting for Great Britain the Statement of Accounts which follows includes the following:-

- ◆ Statement of Accounting Policies (Pages 5 - 9)
- ◆ Consolidated Revenue Account (Pages 10 - 18) which summarises all the Council's revenue activities.
- ◆ Collection Fund Accounts (Pages 19 - 21) which account for all Council Tax and Business Rate income collected for the Borough, County Council, Police Authority, Fire and Rescue Authority and Central Government.
- ◆ Consolidated Balance Sheet (Pages 22 - 33)
- ◆ Statement of Total Movement in Reserves (Pages 34 - 38) which brings together all gains and losses of the Council during the period and identifies those that have and have not been recognised in the Consolidated Revenue Account. The statement separates the movements between revenue and capital reserves.
- ◆ Cash Flow Statement (Pages 39 - 41) shows all the cash movements between the Council and third parties. Reconciliations are provided which link the statement to other statements in the accounts.
- ◆ Glossary of Terms (pages 42 - 43)
- ◆ Statement on Internal Control (Page 45 - 48)
- ◆ Statement of Responsibilities for the Statement of Accounts and External Auditor's Opinion. (Page 44 and 49 - 51)

There have been no significant changes in statutory functions.

Revenue Spending in 2005/2006 (pages 10 - 18)

The Council approved a budget of £15.291 million to be met from the council tax and government grants in February, 2005. The year end general fund balance, net of budget carryovers of £253,600, at 31 March 2006 is **£1,169,000**. This is in accordance with that required under the medium term financial strategy i.e. 8% of the Council's net budget less £161,000 initial implementation costs of alternate weekly collections which will be met from future savings.

In accordance with Council policy a sum of £400,219 was transferred to the Asset Acquisition Reserve. This amount is the excess amount available at the year end above that required in the general fund balance under the medium term financial strategy. Total funds available for asset acquisition at 31 March 2006 are £923,000.

Council Housing

On 31 January, 1994 the Council transferred its housing stock to a newly formed Housing Association, the Hermitage Housing Association. The balance of the Housing Revenue Account at 31 March 1995 transferred to the General Fund on 1st April 1995.

Foreword to the accounts for the year ended 31st March, 2006 by the Head of Resources (cont'd)

Collection Fund (pages 19 - 21)

This fund accounts independently for income relating to the Council Tax, Community Charge and Non-Domestic Rates; income being raised on behalf of the County Council, Police Authority, Fire and Rescue Authority and the Borough Council. Administration costs of collection are met by the Borough Council.

86.5% of the Council Tax levied was payable to Hampshire County Council, the Police Authority and the Fire and Rescue Authority, 13.5% was retained by the Council to meet its own expenditure.

The Collection Fund Deficit at 31 March, 2006 was £0.125 million. In accordance with government regulations this is taken into account in the calculation of the 2006/2007 and 2007/2008 Council Taxes.

Arrears of Community Charge, National Non-Domestic Rate, Council Tax and general debtors were:-

Gross arrears outstanding	Arrears for		
	Arrears 31/03/2006 £ 000's	Provision for Doubtful Debts 31/03/2006 £ 000's	which no provision had been made 31/03/2006 £ 000's
Council Tax	2,955	736	2,219
Community Charge	13	13	-
Non Domestic Rates	339	190	149
Benefit Debtors	965	461	504
Sundry Debtors	1,576	143	1,433
Total	5,848	1,543	4,305

Gross arrears have reduced from £6.030 million at 31 March 2005 (restated) to £5.848 million at 31 March, 2006.

Euro Costs

Economic and Monetary Union (EMU) could necessitate significant expenditure by the Council to adapt operations and information systems to accommodate the single currency.

The Council may incur a variety of costs, which could include administrative planning, staff training, the provision of information to customers, modification of software and the adaptation of hardware, such as cash receipting machines and car parking machines. The likely once only costs to the Council arising from the introduction of the single currency in Great Britain cannot yet be adequately assessed particularly because the timing of any such introduction of the currency in Great Britain is not known.

Foreword to the accounts for the year ended 31st March, 2006 by the Head of Resources (cont'd)

Consolidated Balance Sheet, Statement of Total Movements in Reserves and Cash Flow Statement (pages 22 - 41)

The Balance Sheet summarises the Council's year end financial position (including the Collection Fund); the Statement of Total Movements in Reserves brings together all the recognised gains and losses of the authority during the period and identifies those which have and have not been recognised in the consolidated revenue account. The statement separates the movements between revenue and capital reserves, and the Cash Flow Statement summarises inflows and outflows of cash arising from transactions with third parties for revenue and capital purposes.

A summary of the capital spending of the Council in the year of £3.256 million together with sources of finance are included in the notes to the Balance Sheet page 25.

Total usable reserves and capital receipts at 31 March 2006 were £5.562 million compared to £3.089 million at 31 March 2005. The increase was mainly due a significant capital receipt arising from the sale of Council land and a transfer to the asset acquisition reserve.

The balance sheet includes a Pensions Reserve, which represents the Council's share of the net liability of the Hampshire County Council Pension Fund. At 31 March, 2006 the reserve showed a liability of £31.090 million (£31.560 million at 31 March 2005). The liability represents the difference between the value of the Authority's pension fund assets and the estimated present value of payments to which it is committed to make. Statutory arrangements for funding the liability mean that the financial position of the Council remains healthy. The liability on the Hampshire County Council Pension fund will be made good by increased contributions over the remaining working life of employees as assessed by the scheme actuary. Any significant changes in global equity markets after 1st April 2006 would also have an impact on the capital value of the pension fund assets.

Outlook

The accounts for 2005/2006 in this report show that the Council's finances are in a satisfactory state and that the General Fund Reserve is maintained at a satisfactory level. High priorities in respect of the Council's finances are currently:-

- ❖ Achieving savings and increased income as required by the Council's Medium Term Financial Strategy.
- ❖ Achieving value for money through partnerships and better procurement.
- ❖ Collection of income and reducing arrears.

Nigel Smith, BSc (Econ), C.P.F.A.
Head of Resources
20 June 2006

Statement of Accounting Policies

1. General Principles

The statement of accounts summarises the Council's transactions for the 2005/06 financial year and its position at the year-end of 31 March 2006. It has been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom - A statement of recommended practice 2005 (the SORP). These statements are also produced in accordance with the Accounts and Audit Regulation 2003, as amended in 2006.

2. Accounting Standards

Following the recommendations of the Chartered Institute of Public Finance and Accountancy and the government, the principles contained in the Statements of Standard Accounting Practice Numbers 4, 5, 9, 13, 15, 19, 20, 21, 24 and 25 and Financial Reporting Standards (FRS) 1 to 19 where applicable have been complied with in the compilation of accounts except for local minor variations set out.

3. Fixed Assets

From 1st April, 1994 authorities in England, Wales and Scotland adopted a new system of capital accounting. The system requires an asset register of all the Council's capital assets to be compiled. Assets are valued and included in the Council's balance sheet at their current value. Infrastructural assets, such as Hayling Island sea defences, Community Assets, such as parks and recreation grounds and Intangible Assets such as computer software have been valued at historic value. All other tangible fixed assets are revalued over a five year rolling programme.

4. Depreciation and Amortisation

Assets are depreciated in accordance with FRS 15 and amortised in accordance with FRS 10. These require depreciation and amortisation to be applied to all assets with a finite useful life. Fixed assets have been depreciated/amortised on a straight line basis; with charges being calculated in accordance with their remaining asset lives.

5. Charges to Revenue for Tangible Fixed Assets

Charges for the use of assets have been made in the Council's accounts. The amount of the capital charge is equal to depreciation (the extent to which the asset has been worn out or used up during the year) plus a notional interest payment (3.5% and 4.95% for assets valued at current value or historical cost respectively). Details of the basis upon which fixed assets are included within the balance sheet are provided in note 1 to the Consolidated Balance Sheet. The charges made to service revenue accounts are reversed out of the Consolidated Revenue Account after the Net Cost of Services by way of a credit to the Asset Management Revenue Account.

The Council is not required to raise council tax to cover these charges; however, it is required to make an annual provision from revenue to contribute towards the reduction in its overall borrowing requirement (equal to at least 4% of the underlying amount measured by the adjusted Capital Financing Requirement).

Statement of Accounting Policies (cont'd)

6. Deferred Charges

Deferred charges represent capital expenditure that does not involve the creation of a fixed asset e.g Disabled Facility Grants. The Council's policy is to write down deferred charges in the year in which they are incurred.

7. Government Grants and Contributions

Capital Grants and contributions (including non-monetary contributions) for fixed assets are initially credited to a government grants deferred account. Amounts are released to revenue via the Asset Management Revenue Account to offset the charges for depreciation on the related asset. Grants for deferred charges are treated as revenue grants and credited to the appropriate service. A revenue contribution to capital is then made to finance the relevant capital expenditure.

Government grants for specific revenue purposes are matched with the expenditure to which they relate. Grants made to finance general activities of the Council are credited to the revenue account of the period in which they are payable.

8. Disposal of Capital Assets

When a disposal takes place the asset is removed from the fixed asset account and asset register. Its book value is debited to the Fixed Asset Restatement Account and the net proceeds from the disposal are credited to the Usable Capital Receipts Account.

9. Basis on which Debtors and Creditors at the year end are included in the accounts

The Council's accounts operate on an expenditure and income basis. Debtors appearing in the consolidated balance sheet represent sums still due to the Council, which have not been received at the year end after allowing appropriate provisions for bad debts. Creditors are included on the basis of the estimated cost of goods and services rendered to the Council by the 31 March for which invoices have not been paid. Exceptions apply in the case of (a) electricity, gas and other similar quarterly charges which are charged at the date of meter reading and (b) Housing Benefit payments and subsidy where the Benefits year does not end on the 31 March. These exceptions are applied consistently and therefore do not have a material effect on the year's accounts. Accrual has been made for government grants known to be receivable for the period to 31 March, 2006. Interest receivable and payable have been accounted for on an income and expenditure basis. The Housing Benefit Subsidy income has been estimated on the basis of an unaudited draft final claim.

10. Nature of substantial reserves and provisions

Provisions are made when an event has taken place that gives the Council an obligation that probably requires settlement by transfer of economic benefits, but where the timings of the transfer is uncertain. Provisions are charged to the appropriate revenue account when the authority becomes aware of the obligation, based on the best estimate of the likely settlement. When payments are eventually made, they are charged to the provision set up in the balance sheet.

Statement of Accounting Policies (cont'd)

The Council sets aside specific amounts as reserves for future policy purposes or to cover contingencies. Reserves are created by appropriating amounts from the Consolidated Revenue Account after the Net Operating Expenditure line. When expenditure to be financed from a reserve is incurred it is charged to the appropriate revenue account in that year to score against the Net Cost of Services. The reserve is then appropriated back into the Consolidated Revenue Account after Net Operating Expenditure so that there is no net charge against council tax for that expenditure.

Details of reserves and provisions held under the Local Government and Housing Act 1989 are shown in the Consolidated Balance Sheet. The substantial reserves and provisions at 31 March, 2006 were:

- (a) General Fund balance - Maintained to ensure that the Council has an adequate working balance and is capable of funding unforeseen or additional expenditure.
- (b) Insurance Fund Reserve - An earmarked reserve that will be used to meet future claims.
- (c) Planning Reserve – set up from unused planning delivery grant and will be used to fund improvements in planning performance.
- (d) Capital Reserve - Used to meet part of future capital programmes.
- (e) Asset Acquisition Reserve - used for the purpose of acquiring assets within the Borough to assist in securing the economic, environmental and social well being of the Borough.
- (f) Collection Fund Balances - Maintained in respect of accumulated Community Charge and Council Tax deficits and surpluses.
- (g) Usable Capital Receipts - Usable receipts from the disposal of assets are held in a usable capital receipts account until they are used to finance capital expenditure.
- (h) Deferred Grants Reserve – the balance of grants and contributions applied to the financing of fixed assets, awaiting amortisation to the asset management revenue account to match depreciation of the relevant assets.
- (i) Capital contributions deferred – non monetary S106 contribution from Developer towards capital expenditure. Contribution initially credited to this account and then released to the Asset Management Revenue Account over the life of the relevant asset to match the charge for depreciation.
- (j) Pensions Reserve - This reserve arises because the cost of providing pensions for employees is funded in accordance with statutory requirements governing the Hampshire County Council pension fund and the accounting for employees pensions is in accordance with generally accepted accounting practice FRS17. The reserve balance represents the Council's share of the net asset/(liability) of the Hampshire County Council Pension Fund.
- (k) Fixed Asset Restatement Account - Represents the difference between the book value of assets prior to the implementation of capital accounting in 1994 and the revalued amount, and subsequent adjustments to valuations since implementation.
- (l) Insurance Provision – monies set aside to meet estimated cost of settling known claims.

11. Basis of valuation of investments

Investments have been valued at 31 March, 2006 at the lower of cost or net realisable value.

12. Extent to which central administrative expenses are allocated

All salaries and associated expenses together with the net expenditure on public offices are initially allocated to business units on an appropriate basis and are then

Statement of Accounting Policies (cont'd)

recharged, mainly on the basis of individual staff annual timesheets. The Council has complied with Best Value Accounting Code of Practice requirements on accounting for support service costs.

13. Work in progress, stocks and stores

- (a) Work in progress - Any work in progress that is rechargeable has been shown in the balance sheet at the accumulated cost as at the 31 March, 2006.
- (b) Stocks and stores - Stocks and stores held in the Council's depot at the year end are included in the balance sheet at the latest purchase price and Tourist Information Centre stocks at nominal value only and not in accordance with Statement of Standard Accounting Practice (S.S.A.P.) number 9 (see 2 above). Losses on stocks and stores sold are accounted for when realised. The stocks include consumables and fuel for the Council's vehicle and plant fleet. There are no other significant stock holdings for which provision is made.

14. Leasing

The council has acquired the use of a variety of vehicles by means of operating leases. These vehicles do not appear in the balance sheet, as the Council does not own them. The revenue accounts are charged with the annual rentals when they become due.

15. Pensions

Pension costs are accounted for in accordance with FRS17. The purpose of FRS17 is to reflect the fair value of assets and liabilities arising from an employer's retirement benefit obligations in the accounting period in which they are earned, and to reflect any unfunded liabilities of the pension fund on the Consolidated Balance Sheet.

Net assets / (liabilities) of the Council's share of the pension fund are recognised in the accounts through a pensions reserve. Charges to services are based upon the benefit entitlement earned by employees rather than the employers' contribution payable. The difference between the benefit entitlement earned and pension contributions paid are reversed out in the consolidated revenue account to ensure the amount required from Council Tax is unaffected by the adoption of FRS17.

16. Repurchase of Borrowing

Gains or losses arising from the repurchase or early settlement of borrowing is recognised in the consolidated revenue account in the periods which the repurchase or early settlement is made. Where, however, the repurchase of borrowing is coupled with refinancing or restructuring of borrowing with substantially the same overall economic effect when viewed as a whole, gains or losses are recognised over the life of the replacement borrowing.

The Council has no long term debt. No repurchase or early settlement of borrowing took place during 2005/2006 and there are no deferred charges arising from the repurchase of borrowing coupled with refinancing or restructuring from earlier years.

Statement of Accounting Policies (cont'd)

17. VAT

Income and expenditure excludes any amounts related to VAT, as all VAT collected is payable to HM Revenue and Customs and all VAT paid is recoverable from them.

18. Group Accounts

A major change in the 2005 Statement of Recommended Practice (SORP) is full compliance with Group Accounting requirements. These require local authorities to consider all their interests and to prepare a full set of group financial statements where they have material interests in subsidiaries, associates or joint ventures. The financial statements will include:-

- group income and expenditure account
- group balance sheet
- group cash flow statement
- group statement of total movements on reserves

In order to assess whether this authority has interests relevant to group accounts, consideration has been given to involvement with companies, partnerships, voluntary organisations and other public bodies to determine whether:-

- the authority has a formal interest in a body which gives it access to economic benefits or service potential and that the body is an identifiable entity carrying on a trade or business of its own.
- the interest constitutes control over the majority of equity capital or voting rights or over rights to appoint the majority of the governing body or the interest involves it exercising, or having the right to exercise, dominant influence over the entity, such that the entity is classified as a subsidiary of the authority.
- if the authority does not have control, whether its interests involves it being able to exercise a significant influence over the entity without support from other participants, such that the entity is classified as an associate of the authority.
- if the authority does not have control, whether its interest allows it to direct the operating and financial policies in conjunction and with the consent of the other participants in the entity, such that the entity is classified as a joint venture for the authority.

Consideration has been given to the relationship with all potential entities and the following disclosures have been made:-

- Interests in other entities as shown in Note 19 to the Consolidated Revenue Account

There are no entities where the Council's interest is such that it would give rise to the requirement to prepare group accounts.

This position will be reviewed and updated on an annual basis.

Consolidated Revenue Account 2005/2006

The account records expenditure and income for all the Council's functions. This page summarises the net expenditure for the year with comparative figures for the previous year.

2004/2005 £000's (as restated)	Expenditure £000's	Income £000's	2005/2006 £000's
938 Central Services to the Public	9,310	8,323	987
14,563 Cultural, Environmental and Planning Services	17,035	3,064	13,971
981 Highways Roads and Transport Services	2,620	1,584	1,036
1,203 Housing Services	20,268	19,286	982
53 Social Services	321	276	45
1,823 Corporate and Democratic Core	2,049	-	2,049
39 Unapportionable Central Overheads	30	-	30
19,600 NET COST OF SERVICES	51,633	32,533	19,100
96 Langstone Harbour Board Precept			99
- Contribution of Housing Capital Receipts to Government Pool			14
(304) Interest and Investment Income			(342)
(1,930) Transfer from Asset Management Revenue Account (note 10)			(2,032)
Pensions interest cost and expected return on Pensions assets			
980 (note 13)			970
18,442 NET OPERATING EXPENDITURE			17,809
APPROPRIATIONS			
(385) Contribution to / (from) other reserves (note 11)			384
(1,370) Contribution to / (from) the pensions reserve (note 13)			(1,290)
- Transfer from usable capital receipts equal to the contribution to Housing Pooled Capital Receipts			(14)
752 Capital expenditure financed from revenue			636
(2,217) Provision for repayment of external loans (note 14)			(1,966)
(282) Adjustment for deferred charges and deferred grants (note 15)			(221)
14,940 AMOUNT TO BE MET FROM GOVERNMENT GRANT & LOCAL TAXPAYERS			15,338
SOURCES OF FINANCE			
(6,379) Council Tax Payers			(6,799)
(62) Surplus on Collection Fund			(5)
(5,078) Revenue Support Grant			(5,127)
(3,171) Contribution from Non-Domestic Rate Pool			(3,360)
250 NET GENERAL FUND (SURPLUS) / DEFICIT			47
1,466 Balance on General Fund brought forward			1,216
(250) Surplus / (Deficit) for the year			(47)
1,216 Balance on General Fund carried forward			1,169

Consolidated Revenue Account 2005/2006 (cont'd)

2005/2006 Analysis of Expenditure	Expenditure £000's	Income £000's	Net £000's
<u>Central Services to the Public</u>			
Local tax collection	8,158	7,256	902
Elections	189	5	184
Emergency planning	70	-	70
Local land charges	201	288	(87)
General grants, bequests and donations	313	-	313
Other central services to the public	379	774	(395)
	<u>9,310</u>	<u>8,323</u>	<u>987</u>
<u>Cultural, Environmental and Planning Services</u>			
Culture and heritage	462	176	286
Recreation and sport	1,808	207	1,601
Community parks and open spaces	2,384	242	2,142
Tourism	257	19	238
Cemetery and cremation services	324	245	79
Coast protection	566	157	409
Environmental health	1,710	309	1,401
Community safety	939	64	875
Waste collection	2,707	220	2,487
Street cleansing	987	27	960
Building control	742	294	448
Development control	1,510	477	1,033
Planning policy	712	62	650
Economic development	992	474	518
Other cultural, environmental and planning services	935	91	844
	<u>17,035</u>	<u>3,064</u>	<u>13,971</u>
<u>Highways, Roads and Transport Services</u>			
Transport planning policy and strategy	79	-	79
Highways/roads (structural)	45	48	(3)
Highways/roads (routine)	821	206	615
Traffic management and road safety	18	15	3
Parking services	1,130	1,310	(180)
Public transport	527	5	522
	<u>2,620</u>	<u>1,584</u>	<u>1,036</u>
<u>Housing Services</u>			
Private sector housing renewal	918	443	475
Homelessness	547	206	341
Housing benefits payments	17,563	17,731	(168)
Housing benefits administration	1,014	786	228
Other housing services	226	120	106
	<u>20,268</u>	<u>19,286</u>	<u>982</u>
<u>Social Services</u>			
Meals	194	151	43
Sure Start	127	125	2
	<u>321</u>	<u>276</u>	<u>45</u>
<u>Corporate and Democratic Core</u>			
Corporate Management	805	-	805
Democratic representation and management	1244	-	1244
	<u>2,049</u>	<u>-</u>	<u>2,049</u>
<u>Unapportionable Central Overheads</u>			
	30	-	30
<u>GRAND TOTAL</u>	<u>51,633</u>	<u>32,533</u>	<u>19,100</u>

Notes to the Account

1. Prior Year Adjustments

The presentation of the Consolidated Revenue Account has been changed to clarify that the balance on the general fund excludes the amount earmarked for revenue budget carryforwards. This change has necessitated for comparison purposes the restatement of figures shown for 2004/05 on page 10 the Consolidated Revenue Account and page 14 note 11 contributions to/from reserves.

The movement in the amount earmarked for revenue budget carryforwards in 2004/2005 (-£122,000) has been moved from the surplus/deficit for the year line to the contributions to / from other reserves line within the Consolidated Revenue Account. It has been necessary to restate the value of the balance on the general fund brought forward to exclude the budget carryforwards from 2003/04 (£308,000). The value of earmarked reserves and general fund balance as shown on the balance sheet has remained unchanged. There is no overall financial effect on the Council.

2. Section 137(3) Local Government Act 1972

The Local Government Act 2000 granted new powers to authorities in England and Wales to promote well-being in their area. As a consequence the majority of the provisions of s137 were repealed with effect from October 2000. The Council is still required to disclose expenditure under s137(3) e.g. donations to charities. Actual expenditure under s137(3), incurred on grants to voluntary organisations, other than where a service level agreement is entered into with the Council, in 2005/2006 was £1,570 (£25,760 in 2004/2005).

3. Agencies

The Council is responsible for aspects of highway maintenance within the borough on behalf of Hampshire County Council. The Council spent £410,000 in respect of highway revenue works (£372,000 in 2004/2005). The County Council reimburses the Council for this work together with a contribution towards revenue administrative costs. Agency works expenditure is not included in the Consolidated Revenue Account but administration costs and the associated County Council reimbursement are shown in the account (page 11).

From April 2005 the Council entered into an agency agreement with Hampshire County Council for the enforcement of parking control. The net cost of this service was £230,860 during 2005/06 (set up costs of £35,700 incurred during 2004/2005); all net costs are included within the Consolidated Revenue Account. The County Council does not re-imburse the Borough for these net costs, however any cumulative net costs can be re-imbursed from any future surplus of income arising from parking enforcement.

4. Trading Operations

The Council has no Trading Operations.

Consolidated Revenue Account 2005/2006 (cont'd)

5. Exceptional Items

There are no exceptional items.

6. Local Authority (Goods and Services) Act 1970

In 2005/2006 the Council received £119,600 (£123,300 during 2004/2005) for services provided to other public bodies. The most significant transactions included £34,400 (£50,600 during 2004/2005) from Portsmouth City Council for a variety of services, Payroll Services to Horizon Leisure Trust and East Hampshire District Council £26,300 (£25,700 during 2004/2005), Audit Services to other Local Authorities £28,700 (£35,100 during 2004/2005) and Hire of Bins to Hermitage Housing Association £20,300 (£19,200 during 2004/05).

7. Members Allowances

The total Members Allowances expenditure (including travelling and subsistence allowances) was £296,573 (£288,838 in 2004/2005).

8. Building Control Trading Account

The Local Authority Building Control Regulations require the disclosure of information regarding the setting of charges for the administration of the building control function. However, certain activities performed by the Building Control Unit cannot be charged for, such as providing general advice and liaising with other statutory bodies. The statement below shows the total cost of operating the building control unit divided between chargeable and non-chargeable activities.

Building Regulations Charging Account 2005/2006	Chargeable	Non Chargeable	Total Building Control
	2005/2006	2005/2006	2005/2006
	£000's	£000's	£000's
<u>Expenditure</u>			
Employee Expenses	314	298	612
Supplies and Services	-	2	2
Central and Support Service Charges	14	14	28
	328	314	642
<u>Income</u>			
Building Regulation Charges	294	-	294
	294	-	294
Surplus/(Deficit) For Year	(34)	(314)	(348)
<u>Comparatives for 2004/2005</u>			
Expenditure	292	375	667
Income	316	-	316
Surplus/(Deficit) For Year	24	(375)	(351)

Consolidated Revenue Account 2005/2006 (cont'd)

9. Publicity

Expenditure on publicity under Section 5 of the Local Government Act 1986 was:

	2004/2005	2005/2006
	£000's	£000's
Staff Recruitment	46	22
Tourism	71	44
Borough Wide Newsletter	29	31
Recycling	28	5
Leisure Promotion	13	26
Other	20	29
	207	157

10. Transfer from Asset Management Revenue Account

	2004/2005	2005/2006
	£000's	£000's
<u>Income</u>		
Capital Charges	(3,698)	(3,579)
Depreciation of Deferred Grants	(491)	(548)
	(4,189)	(4,127)
<u>Expenditure</u>		
Provision for depreciation	2,256	2,094
Interest Charges	3	1
	2,259	2,095
Surplus on Asset Management Revenue Account	(1,930)	(2,032)

11. Contributions To/(From) Reserves

	2004/2005	2005/2006
	£000's	£000's
	(as restated)	
General Fund - Earmarked Reserve	(122)	68
Capital Reserve	(390)	31
Asset Acquisition Reserve	-	400
Insurance Reserve	(1)	-
Commutated Car Parking	1	(26)
Planning Reserve	127	(89)
	(385)	384

12. Leases

Finance Leases

During 2005/2006 no assets were acquired under finance leases. No finance lease rentals were paid during the year.

Consolidated Revenue Account 2005/2006 (cont'd)

Operating Leases

Vehicles - The Council uses vehicles and plant financed under terms of an operating lease. The amount paid under these agreements in 2005/2006 was £182,839 (£202,565 during 2004/2005).

Land and Buildings – The Council leases various land and buildings within the Borough for a variety of purposes. Rentals paid in 2005/2006 were £23,000 (£23,200 during 2004/2005).

Lessors – The Council has granted a number of leases to third parties to use its land and buildings (e.g community centres, leisure centres, investment properties). The amount of rental receivable excluding service charges in 2005/2006 was £943,700 (£932,700 during 2004/2005).

13. Pensions

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

Havant Borough Council participates in the Local Government Pension Scheme, which is administered by Hampshire County Council. The Local Government Pension Scheme is a defined benefit scheme based on final pensionable salary.

The cost of retirement benefits are recognised in the Net Cost of Services when they are earned by employees, rather than when the benefits are eventually paid as pensions. However the charge that is required to be made against council tax is based on the cash payable in the year, so the difference between cost of retirement benefits and how much the Council pays towards retirement benefits is reversed out of the Consolidated Revenue Account after Net Operating Expenditure. The following transactions have been made in the Consolidated Revenue Account during the year.

	2004/2005	2005/2006
	£000's	£000's
Net cost of services		
Current Service Costs	1,540	1,680
Past Service costs	10	-
Total cost charged to net services cost	1,550	1,680
Net Operating Expenditure		
Interest on pension scheme liabilities	3,890	4,100
Expected return on pension fund assets	(2,910)	(3,130)
Net (credit) / charge to other finance income	980	970
Movement on Pension Fund Reserves	(1,370)	(1,290)
<u>Amounts to be met from Government Grants and Local Taxation i.e. employers' contribution paid</u>	1,160	1,360

Consolidated Revenue Account 2005/2006 (cont'd)

Havant Borough Council's standard contribution rate over the accounting period was 250% of members' contributions.

Further disclosures are shown in note 11 to the Balance Sheet on page 30 and note 1 to the Statement of Total Movement in Reserves on page 35.

14. Revenue provision for the repayment of loans

Under the prudential code the Council is required to make a minimum revenue provision from revenue towards repayment of money borrowed to finance capital expenditure. The method of calculating the provision is defined by statute. Under the calculation the Council is required to make a minimum revenue provision in 2005/2006 of £38,000. However the Council has made an additional voluntary set aside from revenue to ensure the cost of investment in vehicles and waste bins is charged to revenue over their respective useful lives.

	2004/2005	2005/2006
	£000's	£000's
Amount Charged as depreciation	2,256	2,094
Surplus transferred to revenue	(2,217)	(1,966)
Provision for the repayment of loans	39	128

15. Adjustments for Deferred Charges and Deferred Government Grants

	2004/2005	2005/2006
	£000's	£000's
Reversal of Deferred Charges included within net cost of services	(773)	(769)
Reversal of Deferred Government Grants included within net cost of services	491	548
	(282)	(221)

Consolidated Revenue Account 2005/2006 (cont'd)

16. Employees receiving a remuneration in excess of £50,000

Employees receiving a remuneration in excess of £50,000 during 2005/2006 are shown below:

Remuneration (including expenses and benefits)	Number of employees 2004/2005	Number of employees 2005/2006
Between £80,000 and £89,999	1	1
Between £70,000 and £79,999	-	-
Between £60,000 and £69,999	3	4
Between £50,000 and £59,999	4	7

17. 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.

Central government has 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 a note to the Cash Flow Statement (page 41).

Members of the Council have direct control over the Council's financial and operating policies. During the year, a contract to the value of approximately £100,000 was awarded to a company in which a Member had an interest. Contracts were entered into in full compliance with the Council's standing orders. The relevant member did not take part in any discussions or decisions relating to the contract. Details of that Member's interest in the commissioned company are recorded in the Register on Members' Interest, open to public inspection at the Civic Offices, Havant. There were no other known material transactions with members.

Officers – there were no known material related party transactions with officers.

Families / Households of members and officers. No transactions were declared following a questionnaire sent to all members and senior officers of the Council.

Assisted Organisations – the Council provided material financial assistance to the following organisations which could form relationships that enable the Council to influence the financial and operating policies of these organisations:-

Horizon Leisure Trust – payment of an operating grant of £169,500 towards the operating costs of Havant & Waterlooville Leisure Centres and a loan of £17,800 towards electronic timing equipment.

Havant & District Citizens Advice Bureaux – payment of a grant of £141,200 under a service level agreement.

Consolidated Revenue Account 2005/2006 (cont'd)

Havant Council of Community Service – payment of a grant of £73,300 under a service level agreement and payment of £64,800 towards the net cost of providing meals to the elderly.

Joint Ventures

- The Council along with 3 neighbouring authorities is part of the Portchester Crematorium Joint Committee, which has control over the functions of Portchester Crematorium. During 2005/2006 the Council received £101,000 from the Joint Committee being its share of the distributable surpluses.
- A “Havant Museum Joint Committee” between the Council and Hampshire County Council controls the operation of Havant Museum, with each authority generally meeting 50% of the cost. The cost of running Havant Museum during 2005/2006 was £160,700.

18. Disclosure of Audit Cost

Havant Borough Council incurred the following fees relating to external audit and inspection.

	2004/2005 £000's	2005/2006 £000's
Fees payable with regard to statutory external audit services	68	107
Fees payable for statutory inspection	9	4
Fees payable for the certification of grant claims and returns	28	24

19. Interests in other entities

The Council does not have, in aggregate, a material interest in any subsidiary companies, associated companies or joint ventures. Group Accounts have therefore not been prepared.

The Council has an interest in the following entity. The accounts of this entity have not been consolidated into the financial statements of the Council.

Portchester Crematorium Joint Committee manages the operations of Portchester Crematorium. The Joint Committee is represented equally by the four constituent authorities, Fareham Borough Council, Havant Borough Council, Gosport Borough Council and Portsmouth City Council. Further information can be obtained from: - The Treasurer to the Joint Committee, Civic Centre, Civic Way, Fareham. Havant Borough Council's share of the net assets of Portchester Crematorium Joint Committee is £937,000 (£883,000 in 2004/2005). Transactions between the Joint Committee and the Council are outlined in note 17 (related parties) to the Consolidated Revenue Account.

The Collection Fund Income and Expenditure Account for the year ended 31st March, 2006

2004/2005 £000's	Note	2005/2006 £000's
Income		
42,413	2	43,921
6,220		6,720
18,152	3	19,874
65		118
66,850		70,633
Expenditure		
48,368	4	50,310
18,011		19,733
141		141
374		445
66		8
66,960		70,637
Movement on Fund Balance		
11		121
66,960		70,637
66,971		70,758
(66,850)		(70,633)
121	5	125

Notes to the Collection Fund Accounts

1. These accounts represent the transactions of the Collection Fund, which is a statutory fund. It records income from council tax, residual community charge and non domestic rates and the spending requirements of the Council, Hampshire Police Authority, Hampshire Fire & Rescue Authority and Hampshire County Council. The Collection Fund balances are consolidated with the Council's accounts. The accounts have been prepared on an accruals basis.
2. Council Tax is calculated by reference to the valuation band appropriate to each chargeable dwelling; the total yield being determined by what is known as the band D equivalent. The band D charge in 2005/2006 was £1,197.04. The Council tax base was as follows:-

	<u>*Band A</u>	<u>Band A</u>	<u>Band B</u>	<u>Band C</u>	<u>Band D</u>	<u>Band E</u>	<u>Band F</u>	<u>Band G</u>	<u>Band H</u>
No. of Properties	-	7,557	13,179	11,921	9,594	5,388	2,377	928	39
Equivalents after exemptions, etc	11	6,158	11,662	10,660	8,641	4,939	2,215	842	26
Ratio to Band D	5/9	6/9	7/9	8/9	1	11/9	13/9	15/9	18/9
No. of Band D Equivalents	6	4,105	9,070	9,476	8,641	6,037	3,199	1,403	51
			Band D Equivalents		41,989				
			Contributions in lieu of armed forces accommodation		40				
* after disabled reduction			Tax Base		42,029				

The Collection Fund Income and Expenditure Account for the year ended 31st March, 2006 (cont'd)

3. Non-Domestic Rateable Value and Rate Multiplier

The total non-domestic rateable value at the 31 March 2006 was £59,260,516 and the national non-domestic rate multiplier for the year was 42.2p and 41.5p for small businesses. The income collectable was considerably lower than the gross yield as a result of retrospective adjustments in respect of reductions made to rateable values, provisions for non-collection and various reliefs awarded.

4. Precepts

Hampshire County Council, Hampshire Police Authority, Hampshire Fire & Rescue Service and Havant Borough Council precept upon the collection fund. The amount of these precepts were:-

	2004/2005	2005/2006
	£000's	£000's
Hampshire County Council	35,284	36,540
Hampshire Police Authority	4,551	4,781
Hampshire Fire & Rescue Service	2,154	2,190
Havant Borough Council	6,379	6,799
	48,368	50,310

5. Collection Fund (Surplus) / Deficit

The Collection Fund balance comprises:-

	2004/2005	2005/2006
	£000's	£000's
Community Charge	(5)	2
Council Tax	126	123
(SURPLUS) / DEFICIT	121	125

A previously estimated Council Tax deficit of £103,000 for 2005/2006 will be shared with the precepting authorities in 2006/2007. The balance of £20,000 will be adjusted in 2007/2008. (See note 12 on page 32)

The Collection Fund Income and Expenditure Account for the year ended 31st March, 2006 (cont'd)

6. Arrears

A summary of Council Tax / NNDR and Community Charge arrears (including court costs) and bad debt provisions are shown below.

Gross arrears outstanding	Arrears 31/03/2006	Provision for Doubtful Debts 31/03/2006	Arrears for which no provision had been made 31/03/2006
	£ 000's	£ 000's	£ 000's
Council Tax	2,955	736	2,219
Community Charge	13	13	-
Non Domestic Rates	339	190	149
Total	<u><u>3,307</u></u>	<u><u>939</u></u>	<u><u>2,368</u></u>

7. Write Offs

A summary of amounts written off for Council Tax / NNDR and Community Charge (excluding court costs) are shown below.

Amounts written off	2004/2005 £000's	2005/2006 £000's
Council Tax	272	462
Community Charge	185	(3)
Non Domestic Rates	75	166
Total	<u><u>532</u></u>	<u><u>625</u></u>

Consolidated Balance Sheet as at 31st March, 2006

This balance sheet shows the financial position of Havant Borough Council as a whole and summarises its assets and liabilities.

31st March 2005 £000's			31st March 2006 £000's
	Fixed Assets:-	note 1a	
198	Intangible Fixed Assets		149
	Tangible Fixed Assets		
30,937	Land and buildings		31,225
2,589	Equipment		2,482
869	Vehicles & plant		951
3,374	Infrastructure assets		3,855
1,453	Community assets		1,426
	Non operational assets		
7,770	Investment Properties		7,743
312	Assets under construction		728
47,502	Total Fixed Assets		48,559
50	Long term investments	note 2	50
456	Long term debtors	note 3	311
48,008	TOTAL LONG TERM ASSETS		48,920
	Current assets:-		
97	Stocks and stores		43
5,424	Debtors (Net of bad debt provisions)	note 4	5,422
-	Investments	note 5	5,000
1,910	Cash		200
7,431			10,665
	<u>Less</u> Current liabilities:-		
5,671	Creditors	note 6	6,316
-	Temporary borrowing		-
473	Cash overdrawn		694
1,287	NET CURRENT ASSETS		3,655
49,295	TOTAL ASSETS		52,575
202	<u>Less</u> Provisions	note 7	226
104	Deferred credits	note 10	63
31,560	Liability relating to defined benefit pension scheme	note 11	31,090
17,429	TOTAL NET ASSETS		21,196
	Representing:-		
739	Fixed asset restatement account	page 37	1,421
40,427	Capital financing account	page 37	39,974
2,491	Deferred grants	page 37	2,888
1,829	Capital contributions deferred	page 37	1,791
-	Usable Capital Receipts Reserve	page 36	2,136
(31,560)	Pensions Reserve	page 36	(31,090)
(121)	Collection fund	page 19	(125)
1,873	Earmarked reserves	page 35	2,257
1,216	General Fund Balance	page 35	1,169
535	Other balances	note 13	775
17,429	TOTAL CAPITAL AND REVENUE RESERVES		21,196

1. Net Fixed Assets

The freehold and leasehold properties which comprise the Council's property portfolio have been valued under the supervision of an Estates officer, employed by the Council, who holds the BSc F.R.I.C.S. qualification and in accordance with the Statement of Asset Valuation Practice and Guidance Notes of The Royal Institution of Chartered Surveyors. Depreciation has been charged on a straight line basis in accordance with the remaining life expectancy of the assets in compliance with FRS11 and FRS15 except where it would be immaterial or where the estimated residual value of the asset is not materially different from the net book value.

The useful lives used to calculate depreciation or amortisation for each category of asset are:-

- ◆ Operational Land and Buildings – generally 40-50 years but determined asset by asset.
- ◆ Operational Equipment - generally 10 years; less for some assets including Computer Hardware and software which generally has a life of less than 5 years
- ◆ Vehicles & Plant - generally 7 years; less for some vehicles and plant
- ◆ Infrastructure Assets - generally 30 years; less for some assets
- ◆ Community Assets – generally 20 years; less for some assets
- ◆ Non operational assets – generally 50 years; less for some assets
- ◆ Intangible Assets – 5 years

Assets, which comprise land but no buildings, are not depreciated because it is considered they have an infinite useful life.

Notes to the Balance Sheet on page 22

(a) Fixed Asset Transactions

Movements in fixed assets in the year were:

	-----Operational Assets-----							Non Oper- ational Assets £000's	Total £000's
	Intangible assets £000's	Land and Buildings £000's	Equipment £000's	Vehicles & plant £000's	Infra- structure assets £000's	Community assets £000's			
Certified valuation at 31 March 2005	248	33,850	5,384	1,410	3,816	1,809	8,187	54,704	
Accumulated Depreciation, Amortisation and Impairment	(50)	(2,913)	(2,795)	(541)	(442)	(356)	(105)	(7,202)	
Net Book Value of Assets at 31 March 2005	198	30,937	2,589	869	3,374	1,453	8,082	47,502	
<u>Movement in 2005/06</u>									
Additions	-	237	445	378	638	49	722	2,469	
Disposals	-	(565)	-	-	-	-	-	(565)	
Revaluations	-	1,247	-	-	-	-	-	1,247	
Asset Reclassification	-	-	312	-	-	-	(312)	-	
Depreciation	(49)	(631)	(864)	(296)	(157)	(76)	(21)	(2,094)	
Net Book Value of assets at 31st March 2006	149	31,225	2,482	951	3,855	1,426	8,471	48,559	

Intangible Assets relate to purchased software licences.

A target five year rolling programme (minimum) of revaluations is in place ensuring that major movements in valuations for specific categories of asset are reflected each year. Progress against this plan is shown below:-

Category of Asset	Most recent Valuation	Revaluation to be undertaken during
Car Parks	March 2002	2006 – 2007
Public Conveniences	March 2003	2007 – 2008
Leisure/Beachlands Properties	March 2004	2007 – 2009
Commercial (Let) Properties	March 2004	2008 – 2009
Civic Offices	March 2005	2009 – 2010
Depot	March 2005	2009 – 2010
Other HBC premises	March 2005	2009 – 2010
Community Centres	March 2006	2010 – 2011

Notes to the Balance Sheet on page 22

The following statement shows the progress of the Council's rolling programme for the revaluation of fixed assets. The valuations are carried out under the supervision of an estates officer employed by the Council. The basis for the valuation is set out in the statement of accounting policies.

-----Operational Assets-----								
	Intangible assets £000's	Land and Buildings £000's	Equipment £000's	Vehicles & plant £000's	Infra- structure assets £000's	Community assets £000's	Non Oper- ational Assets £000's	Total £000's
Valued at historical cost (at 31/3/2006)	149	-	-	-	3,855	1,426	240	5,670
Valued at current value in								
2005/06	-	31,225	2,482	951	-	-	8,231	42,889
2004/05	-	30,937	2,589	869	-	-	8,082	42,477
2003/04	-	23,291	2,372	591	-	-	12,374	38,628
2002/03	-	23,672	2,136	446	-	-	7,749	34,003
2001/02	-	23,435	1,785	137	-	199	7,657	33,213

(b) Capital Expenditure and Financing

	2004/2005 £000's	2005/2006 £000's
Opening Capital Financing Requirement	1,534	2,017
<u>Capital Investment</u>		
Operational Assets	2,855	1,747
Non Operational Assets	311	722
Deferred Charges	773	769
Loans to Local Organisations	32	18
	<u>3,971</u>	<u>3,256</u>
<u>Financed by:-</u>		
Usable capital receipts	1,824	1,133
Grants and Contributions	882	907
Revenue provision (including MRP)	791	764
	<u>3,497</u>	<u>2,804</u>
Movement in Loans to Local Organisations	9	16
<u>Closing Capital Financing Requirement</u>	2,017	2,485
Movement represented by :-		
Increase in underlying need to borrow (unsupported by Government financial assistance)	474	452
Movement in Loans to Local Organisations	9	16

Notes to the Balance Sheet on page 22

(c) Capital Commitments

The estimated commitments arising from capital contracts signed but where payments were not due at 31 March, 2006 were £505,000.

(d) Assets Held Under Finance Leases

No assets were held under a finance lease at 31 March 2006.

(e) Operating Leases

The authority was committed at 31 March 2006 to making payments of £187,966 under operating leases in 2006/2007, comprising the following elements:-

	Other Land and Buildings £000's	Vehicles, Plant and Equipment £000's
Leases expiring in 2006/2007	12	78
Leases expiring between 2007/2008 and 2011/2012	3	87
Leases expiring after 2011/2012	8	-

(f) Council as Lessor

With regard to the Council's activity as a lessor, the gross value of assets held for use in operating leases for various land and building properties (Community Centres, Leisure Centres and investment properties but excluding the Civic Offices where part of the building is leased to tenants) was £26.500 million (valued at 31 March 2006 £24.342 million and subject to £2.158 million depreciation to 31 March 2006).

Notes to the Balance Sheet on page 22

(g) Fixed Assets

Major fixed assets held at 31 March 2006 were:-

<p><u>NON OPERATIONAL ASSETS</u> Various small undeveloped areas including commercial properties</p> <p><u>VEHICLES AND EQUIPMENT</u> Operational vehicles CCTV equipment throughout Borough Wheeled recycling bins IT hardware and software</p> <p><u>INFRASTRUCTURE AND COMMUNITY ASSETS</u> 3 cemeteries Hayling Island coastal defences 1,393 acres of principal parks, recreation grounds and open spaces 106 acres of Beachlands 619 allotment plots Hardened verges Cycleways throughout borough Various footpaths throughout borough Crime Prevention Lighting</p> <p><u>OPERATIONAL LAND</u> 29 Pay & Display car parking areas 1 Lorry Park Havant Bus Station</p>	<p><u>OPERATIONAL BUILDINGS</u> Depot site (Havant) 7 Community Centres (Leigh Park, Waterlooville, Cowplain, Stakes, Hayling Island, Westbrook Farm and Wecock) 1 Arts Centre 2 Museums (Havant and Emsworth) 2 Leisure Centres (Havant and Waterlooville) 2 Halls (Bedhampton and Emsworth) 21 Public Conveniences 1 Civic Offices 1 Sure Start Centre 2 Tourist Information Centres Beach Huts Buildings within parks Regional Business Centre Broadmarsh</p> <p><u>INTANGIBLE ASSETS (IT software and implementation costs)</u> Geographical Information System Grounds Maintenance System</p>
--	--

All assets are used by the General Fund

2. Long Term Investments

	2004/2005 £000's	2005/2006 £000's
Association of District Councils (new accommodation)	50	50
	50	50

Notes to the Balance Sheet on page 22

3. Long Term Debtors

These are debtors, which fall due after a period of at least one year as follows:-

	2004/2005 £000's	2005/2006 £000's
Mortgages (Sales of Council Houses and Other)	86	55
Loans to Local Organisations	95	48
Staff Car Loans	275	208
	456	311

4. Current Debtors

An analysis of debtors is shown below:-

	2004/2005 £000's	2005/2006 £000's
Government departments	917	587
Council Tax/Community Charge/N.N.D.R.	3,662	3,307
Payments in advance	80	530
Overpaid Housing Benefits	946	965
Other debtors	1,422	1,576
	7,027	6,965
<u>Less provision for doubtful debts:</u>		
Council Tax/Community Charge/N.N.D.R.	(1,032)	(939)
Overpaid Housing Benefits	(489)	(461)
Other	(82)	(143)
	5,424	5,422

5. Investments (Short Term)

	2004/2005 £000's	2005/2006 £000's
Short term deposits	-	5,000
	-	5,000

Notes to the Balance Sheet on page 22

6. Creditors

	2004/2005 £000's	2005/2006 £000's
Government departments	2,519	2,993
Council Tax/Community Charge/N.N.D.R.	885	1,156
Income in advance	321	138
Other creditors	1,946	2,029
	<u>5,671</u>	<u>6,316</u>

7. Insurance provisions

Provisions at 31 March, 2006 represent amounts set aside for the purpose of providing for liabilities, which are likely or certain to be incurred but are uncertain as to the amount or the date on which they will arise. Insurance Claims are met by an insurance fund operated by the Council. Insurance premiums are paid into the fund from the revenue account by services requiring insurance cover. Insurance claims less than the policy excesses, and policy excesses, are then met from the Insurance Fund. Risks covered by the fund include: Employers Liability; Third Party Claims; Property; Motor Vehicles; Engineering; Terrorism; Officials Indemnity and Professional Indemnity within agreed excess levels.

	2004/2005 £000's	2005/2006 £000's
Provision for outstanding insurance claims:-		
Third party liabilities	161	190
Vehicles and plant	1	-
Property	2	2
Employers Liability	38	34
	<u>202</u>	<u>226</u>

Notes to the Balance Sheet on page 22

8. Analysis of Long Term Borrowing

There was no long term borrowing as at 31 March

9. Deferred Liabilities

The Council has no deferred liabilities.

10. Deferred Credits

Deferred credits represent mortgages on sold council houses.

11. Pension Reserve

Page 15 note 13 contains details of the Council's participation in the Local Government Pension Scheme (administered by Hampshire County Council).

The underlying assets and liabilities for retirement benefits attributable to the authority at 31 March are as follows:-

	2004/2005	2005/2006
	£000's	£000's
Share of assets in Hampshire County Council Pension Fund	46,190	55,810
Estimated funded liabilities in Hampshire County Council Pension Fund	(77,130)	(86,230)
Estimated Unfunded Liabilities	(620)	(670)
Havant Borough Council's deficit in the scheme	<u>(31,560)</u>	<u>(31,090)</u>

The above figures have been provided by the actuaries to the Hampshire County Council Pension Fund using information provided by the scheme and assumptions determined by the Council in conjunction with the actuary. The latest actuarial valuation took place on 31 March 2004. Liabilities are valued on an actuarial basis using the projected unit method, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels etc.

Actuarial calculations involve estimates based on assumptions about events and circumstances in the future, which may mean that the result of actuarial calculations may be affected by uncertainties within a range of possible values.

Notes to the Balance Sheet on page 22

The £31.090 million net liability represents the difference between the value of the Authority's pension fund assets at 31 March 2006 and the estimated present value of the future pension payments to which it was committed at that date. The net liability has a substantial impact on the net assets of the authority as recorded in the balance sheet. However, statutory arrangements for funding the deficit mean that the financial position of the authority remains healthy. These pensions liabilities will be paid out over a period of many years, during which time the assets will continue to generate returns towards funding them. Any significant changes in global equity markets after 1st April 2006 would also have an impact on the capital value of the pension fund assets. The deficit on the local government scheme will be made good by increased contributions over the remaining working life of employees as assessed by the scheme actuary. The contribution rates certified for Havant Borough Council at the 31 March 2004 valuation are as follows:

April 2005 to March 2006 250% of members' contributions
 April 2006 to March 2007 275% of members' contributions
 April 2007 to March 2008 295% of members' contributions

The main assumptions used for the purposes of FRS 17 are as follows:

	31/03/2005	31/03/2006
	% pa	% pa
Rate of inflation	2.90	3.00
Rate of general long-term increase in salaries	4.40	4.50
Rate of increase in pensions in payment	2.90	3.00
Proportion of employees opting to take a lump sum	N/A	50.00
Rate of increase to deferred pensions	2.90	3.00
Discount rate	5.30	4.90
Long-term expected rates of return on:		
Equities	7.70	7.30
Property	6.70	6.30
Government Bonds	4.70	4.30
Corporate bonds	5.30	4.90
Other assets	4.80	4.60
Average long term expected rate of return	6.90	6.50

Changes to the Local Government Pension Scheme permit employees retiring on or after 6 April 2006 to take an increase in their lump sum payment on retirement in exchange for a reduction in their future annual pension. On the advice of our actuaries we have assumed 50% of employees retiring after 6 April 2006 will take advantage of this change to the pension scheme. Our actuaries have advised that this assumption has reduced the value placed on the liabilities for FRS17 purposes by less than 3%. This has been reflected in the Statement of Total Movements in Reserves. The change has not affected the figures in the Consolidated Revenue Account. This treatment does not conform with the requirements of Local Authority Accounting Panel Bulletin 65 (LAAP65), which requires the adjustment to be shown as a Past Service Gain against Non-Distributed Costs in the Consolidated Revenue Account.

Notes to the Balance Sheet on page 22

The fair value of assets of the Hampshire County Council Pension Fund at 31 March is set out below.

	2004/2005		2005/2006	
	£m	% of fund	£m	% of fund
Equities	1,463.32	69%	1,874.49	70%
Property	84.83	4%	106.40	4%
Government bonds	470.81	22%	549.06	21%
Other	101.80	5%	137.58	5%
Total	2,120.76		2,667.53	

The movement in net surplus for the year to 31 March 2006 is as follows:

	£000's	£000's
Net deficit at 1/4/05		(31,560)
Movement in year:		
Operating Charge		
Current service cost	(1,680)	
Past service cost	-	
Total Operating Charge		(1,680)
Contributions		1,360
Other finance income		(970)
Actuarial gain / (loss)		1,760
Net deficit at 31/3/06		(31,090)

12. Collection Fund Revenue Account

Represents the surplus or deficit on the Fund as shown on pages 19 to 21. A share of the Council Tax surplus will be payable to Hampshire County Council, Hampshire Police Authority and Hampshire Fire and Rescue Authority in 2006/2007 and the remainder will be paid during 2007/2008 (See page 20 note 5).

13. Other Balances

	2004/2005 £000's	2005/2006 £000's
Contributions from Developers	540	732
Highways Agency	15	8
Other	(20)	35
	535	775

14. Trust Funds

The Council does not administer any trust funds.

15. Contingent Liabilities and Gains and Events after the Balance Sheet Date

The Council is the accountable body for Central Government's Single Regeneration Budget programmes within the Borough, the Sure Start (Leigh Park) programme and the Havant Crime and Disorder Partnership. In the event of a project/programme failing the Council may be liable for clawback of funding. However, the risks are limited through partnership agreements with other agencies.

The position regarding possible costs associated with the Euro is explained on page 3.

There were no events after the balance sheet date, favourable or unfavourable, which require any amounts within the accounts to be adjusted or disclosure to be made.

This includes all events up to the date shown on page 44 when the accounts are signed by the Council's Chief Financial Officer and formally made available to the Standards Committee.

Statement of Total Movement in Reserves

	2004/2005 £000's	2005/2006 £000's
<i>Surplus / (deficit) for the year</i>		
General Fund	(250)	(47)
Collection Fund	(110)	(4)
add back Movements on earmarked revenue reserves	(385)	384
Deduct appropriation from pensions reserve	(1,370)	(1,290)
Actuarial gains and (losses) relating to pensions	(11,950)	1,760
Total increase / (decrease) in revenue resources (note 1)	(14,065)	803
Increase / (decrease) in usable capital receipts	(1,594)	2,136
Increase / (decrease) in unapplied capital grants and contributions	-	-
Total increase / (decrease) in realised capital resources (note 2)	(1,594)	2,136
Gains / (losses) on revaluation of fixed assets	1,271	1,247
Impairment losses on fixed assets due to general changes in prices	-	-
Total increase / (decrease) in unrealised value of fixed assets (note 3)	1,271	1,247
Value of assets sold, disposed of or decommissioned (note 3)	(141)	(565)
Capital receipts set aside	1,825	1,133
Revenue resources set aside	(1,788)	(1,586)
Movement on Government Grants / Capital contributions		
Deferred	2,257	359
Total increase / (decrease) in amounts set aside to finance capital investment (note 4)	2,294	(94)
Increase / (decrease) in the pension reserve	13,320	(470)
Total recognised gains	1,085	3,057
<i>Reconciliation to Balance Sheet (page 22)</i>	2004/2005 £000's	2005/2006 £000's
Total Capital and Revenue Reserves at 31st March	17,429	21,196
less Total Capital and Revenue Reserves 31st March previous year	(29,630)	(17,429)
less movement in other balances & Pensions Reserve	13,286	(710)
Total recognised gains	1,085	3,057

Notes To Statement of Total Movement in Reserves

Notes to Statement of Total Movement in Reserves

1. Movement in revenue resources

	General Fund Balances £000's	Earmarked Revenue Reserves £000's	Collection Fund £000's	Pension Reserves £000's
Surplus / (deficit) for 2005/06	(47)	-	(4)	-
Appropriations to/from revenue	-	384	-	(1,290)
Actuarial gains and losses relating to pensions	-		-	1,760
	(47)	384	(4)	470
Balance brought forward at 1 April 2005	1,216	1,873	(121)	(31,560)
Balance carried forward at 31 March 2006	1,169	2,257	(125)	(31,090)

Details of the purposes of the reserves are shown on pages 6 and 7.

The General Fund Reserve and Earmarked Revenue Reserves may be used to fund either revenue or capital expenditure. The purpose of the Collection Fund (see page 19 and page 32 note 12) is to show transactions in relation to Community Charge, Council Tax and Non Domestic Rates and the way in which these have been distributed to preceptors.

Movements on earmarked reserves and the General Fund are further broken down in the table below:

	Balance at 31/3/2005 £000's	Surplus / (Deficit) in Year £000's	Transfers In/(Out) £000's	Balance at 31/3/2006 £000's
<u>Earmarked Reserves</u>				
General Fund - earmarked	186	68	-	254
Commuted Car parking	26	-	(26)	-
Insurance Reserve	136	-	-	136
Planning Reserve	127	-	(89)	38
Asset Acquisition Reserve	475	-	400	875
Capital Reserve	923	-	31	954
Total Earmarked Reserves	1,873	68	316	2,257
<u>Non Earmarked Reserves</u>				
General Fund	1,216	(47)	-	1,169
Total Usable Reserves	3,089	21	316	3,426

Notes To Statement of Total Movement in Reserves

Pensions Reserve - this reserve arises because the cost of providing pensions for employees is funded in accordance with statutory requirements governing the Hampshire County Council pension fund and the accounting for employees pensions is in accordance with generally accepted accounting practice FRS17. The reserve balance represents the Council's share of the net liability of the Hampshire County Council Pension Fund (see note 11 page 30 - 32).

The actuarial gains / (losses) identified as movements on the Pensions Reserve can be analysed into the following categories, measured as absolute amounts and as a percentage of assets and liabilities at 31 March each year.

	2002/2003		2003/2004		2004/2005		2005/2006	
	£000's	%	£000's	%	£000's	%	£000's	%
Differences between the expected and actual return on scheme assets	(13,460)	36.30	4,540	10.60	1,520	3.30	7,580	13.60
Differences between actuarial assumptions about liabilities and actual experience	270	0.50	(60)	0.10	300	0.40	30	0.00
Changes in assumptions underlying the present value of pension liabilities	(70)	0.10	150	0.20	(13,770)	(17.70)	(5,850)	(6.70)
Total	(13,260)	(22.90)	4,630	7.60	(11,950)	(15.40)	1,760	2.00

2. Movements in realised capital resources

	Usable Capital Receipts £000's	Unapplied capital grants and contributions £000's
Amounts receivable in 2005/2006	3,282	-
Amounts repaid to Government Pool	(13)	-
Amounts applied to finance new capital investment in 2005/2006	(1,133)	-
Total increase / (decrease) in realised capital resources in 2005/2006	2,136	-
Balance brought forward at 1 April 2005	-	-
Balance carried forward at 31 March 2006	2,136	-

The Usable Capital Receipts Reserve represents capital receipts which are available for financing new capital expenditure but have yet to be applied for that purpose.

Notes To Statement of Total Movement in Reserves

3. Movements in unrealised value of fixed assets and value of assets sold, disposed of or decommissioned

	Fixed Asset Restatement Account £000's
Gains/losses on revaluation of fixed assets in 2005/2006	1,247
Impairment losses on fixed assets due to general changes in prices in 2005/2006	-
Total increase/(decrease) in unrealised capital resources in 2005/2006	1,247
Amounts written off fixed asset balances for disposal in 2005/2006 (during the year the Council sold some land for a sum that exceeded its book value by £2.7 million)	(565)
Total movement on reserves in 2005/2006	682
Balance brought forward at 1 April 2005	739
Balance carried forward at 31 March 2006	1,421

The system of capital accounting, effective from 1st April 1994, requires the establishment of the fixed asset restatement account. The balance represents the difference between the valuation of assets under the previous system of capital accounting and the revaluation at 1st April 1994 and subsequent revaluations since 1st April 1994. The reserve is written down by the net book value of assets on disposal and debited or credited with the deficits or surpluses arising on revaluations. Assets are revalued on a five year rolling programme.

4. Movement in amounts set aside to finance capital Investment

	Capital Financing Account £000's	Government grants deferred £000's	Capital contribution sdeferred £000's
Capital receipts set aside in 2005/2006 - usable receipts applied	1,133		
Total capital receipts set aside in 2005/2006	1,133	-	-
Revenue resources set aside in 2005/2006 - capital expenditure financed from revenue - reconciling amount for provision for loan repayments	636 (2,222)	-	-
Total revenue resources set aside in 2005/2006	(1,586)	-	-
Grants / contributions applied to capital investment in 2005/2006	-	907	-
Amounts credited to the Asset Management Revenue Account in 2005/2006	-	(510)	(38)
Total movement on reserve in 2005/2006	(453)	397	(38)
Balance brought forward at 1 April 2005	40,427	2,491	1,829
Balance carried forward at 31 March 2006	39,974	2,888	1,791

Notes To Statement of Total Movement in Reserves (Cont'd)

The capital financing account represents the amounts which are required by statute to be set aside from capital receipts or the repayment of external loans and the amount of capital expenditure financed from revenue and capital receipts. It also contains the difference between the amounts provided for depreciation and that required to be charged to revenue to repay the principal element of external loans. This reserve is primarily to maintain the double entry accounting concept and does not represent cash balances available for future financing of capital expenditure.

Government grants deferred – government grants towards capital expenditure are initially credited to this account and then released to the Asset Management Revenue Account over the life of the relevant asset to match the charge for depreciation.

Capital contributions deferred – non monetary S106 contribution from Developers towards capital expenditure. Contribution are initially credited to this account and then released to the Asset Management Revenue Account over the life of the relevant asset to match the charge for depreciation.

Cash Flow Statement 2005/2006

This statement summarises the inflows and outflows of cash arising from transactions with third parties for revenue and capital purposes.

2004/2005 £ 000's	Note Number	2005/2006 £ 000's
REVENUE ACTIVITIES		
Cash Outflows		
(11,894)		(12,729)
(42,029)		(43,508)
(10,877)		(10,220)
(15,748)		(17,810)
(18,553)		(18,992)
-		(8)
(99,101)		(103,267)
Cash Inflows		
42,244		43,901
3,171		3,359
17,576		19,713
5,078		5,127
22,324		25,046
1,460		688
5,637		6,036
798		4
98,288		103,874
(813)	1	607
NET REVENUE CASH INFLOW/(OUTFLOW)		
SERVICING OF FINANCE		
(4)		(1)
382		326
CAPITAL ACTIVITIES		
Cash (Outflows) / Inflows		
(3,473)		(2,639)
(639)		(789)
13		3,381
1,958		1,962
781		222
(1,795)		3,069
NET CASH INFLOW/(OUTFLOW) BEFORE FINANCING		
MANAGEMENT OF LIQUID RESOURCES		
4,800	2	(5,000)
FINANCING		
(1,000)		-
2,005	3	(1,931)
NET CASH INFLOW/(OUTFLOW)		

Notes To The Cash Flow Statement 2005/2006

1. Reconciliation of Revenue Surplus to Net Revenue Cash Flow

	2004/2005 £000's	2005/2006 £000's
Net Revenue cash inflow/(outflow)	(813)	607
General Fund surplus/(deficit)	(372)	20
Collection Fund surplus/(deficit)	(111)	(4)
	(483)	16
Net interest included under Servicing of Finance	(299)	(340)
Revenue Contribution to Capital Outlay	752	636
<u>Add</u>		
Reduction in Debtors	-	638
Reduction in stocks & work in progress	85	55
Increase in provision for bad debts	270	-
Minimum Revenue Provision Credit	39	128
Contributions from reserves, provisions & balances	30	388
Reduction in Payments In Advance	5	-
<u>Less</u>		
Increase in Payments In Advance	-	(450)
Reduction in Creditors	(79)	(369)
Increase in Debtors	(1,101)	-
Reduction in provision for bad debts	-	(61)
Other non cash transactions	(32)	(34)
	(813)	607

2. Management of Liquid Resources and Financing

	Balance at 1st April 2005 £000's	Balance at 31st March 2006 £000's	Movement in Year £000's
<u>Management of Liquid Resources</u>			
Short term deposits	-	5,000	5,000
<u>Financing</u>			
Temporary Borrowing	-	-	-

Short term deposits are cash deposits made for periods ranging from two days to twelve months.

Notes To The Cash Flow Statement 2005/2006 (cont'd)

3. Decrease in Cash and Cash Equivalents

	Balance at 1st April 2005 £000's	Balance at 31st March 2006 £000's	Movement in Year £000's
Cash	1,910	200	(1,710)
Cash Overdrawn	(473)	(694)	(221)
	1,437	(494)	(1,931)

4. Analysis of Government Receipts and Payments

	2004/2005 £000's	2005/2006 £000's
National Non Domestic Rates payments to Pool	(18,553)	(18,992)
National Non Domestic Rates receipts from Pool	3,171	3,359
Revenue Support Grant	5,078	5,127
Department for Work and Pensions Benefits Grant	22,324	25,046
Capital Grants	1,958	1,961
Other Grants	1,460	688
	15,438	17,189

5. Reconciliation of Net Cash Flow to Movement in Net Funds

	2004/2005 £000's	2005/2006 £000's
Increase/(Decrease) in Cash in the period	2,005	(1,931)
Increase/(Decrease) in Liquid Resources	(4,800)	5,000
Change in Net Debt resulting from cash flows	1,000	-
Movement in Net Funds in period	(1,795)	3,069
Net Funds at beginning of period	3,231	1,437
Net Funds at end of period	1,436	4,506

Net Funds are defined as being outstanding debt less cash less liquid resources.

Glossary of Terms

ACCRUALS	The concept that income and expenditure are recognised as they are earned or incurred, not as money is received or paid.
CAPITAL CHARGE	A charge to revenue accounts to reflect the cost of fixed assets used in the provision of services.
COMMUNITY ASSETS	Assets that the local authority intends to hold in perpetuity, that have no determinable useful life, and that may have restrictions on their disposal. Examples of community assets are parks and historic buildings.
CONSISTENCY	The concept that the accounting treatment of like items within an accounting period and from one period to the next are the same.
DEFERRED CHARGES	Expenditure which may properly be deferred, but which does not result in, or remain matched with, tangible assets. Examples of deferred charges are expenditure on items such as disabled facility grants and other private sector renewal grants.
DEPRECIATION	The measure of the wearing out, consumption, or other reduction in the useful economic life of a fixed asset, whether arising from use, age or obsolescence or through technological or other changes
EXCEPTIONAL ITEMS	Material items which derive from events or transactions that fall within the ordinary activities of the authority and which need to be disclosed separately by virtue of their size or incidence to give fair presentation of the account.
EXTRAORDINARY ITEMS	Material items, possessing a high degree of abnormality, which derive from events or transactions that fall outside the ordinary activities of the authority and which are not expected to recur. They do not include exceptional items nor do they include prior period items merely because they relate to a prior period.
FINANCE LEASE	A lease that transfers substantially all of the risks and rewards of ownership of a fixed asset to the lessee. Such a transfer of risks and rewards may be presumed to occur if at the inception of the lease the present value of the minimum lease payments, including initial payment, amounts to substantially all of the fair value of the leased asset.
FIXED ASSETS	Tangible assets and Intangible Fixed Assets that yield benefits to the local authority and the services it provides for a period of more than one year.
GOING CONCERN	The concept that the authority will remain in operational existence for the foreseeable future; in particular that the revenue account and balance sheet assume no intention to curtail significantly the scale of operations.
GOVERNMENT GRANTS	Assistance by government and inter-government agencies and similar bodies, whether local, national or international, in the form of cash or transfers of assets to an authority in return for past or future compliance with certain conditions relating to the activities of the authority.

Glossary of Terms (Cont'd)

INFRASTRUCTURE ASSETS	Fixed assets that are inalienable, expenditure on which is recoverable only by continued use of the asset created. Examples of infrastructure assets are highways and footpaths.
INTANGIBLE FIXED ASSETS	Non - financial fixed assets that do not have physical substance but are identifiable and are controlled by the Council through custody or legal rights.
INVESTMENTS	A long-term investment is an investment that is intended to be held on a continuing basis. Investments that do not meet the above criteria are classified as current assets.
NET BOOK VALUE	The amount at which fixed assets are included in the balance sheet, i.e. their historical costs or current value less the cumulative amounts provided for depreciation.
NET CURRENT REPLACEMENT COST	The cost of replacing or recreating the particular asset in its existing condition and in its existing use, i.e. the cost of its replacement or of the nearest equivalent asset, adjusted to reflect the current conditions of the existing asset.
NET REALISABLE VALUE	The open market value of the asset in existing use (or open market value in the case of non-operational assets), less the expenses to be incurred in realising the asset.
NON-OPERATIONAL ASSET	Fixed assets held by a local authority but not directly occupied, used or consumed in the delivery of services. Examples of non-operational assets are investment properties and assets that are surplus to requirements, pending sale or redevelopment.
OPERATING LEASES OPERATIONAL ASSETS	An operating lease is any lease that is not a finance lease. Fixed assets held and occupied, used or consumed by the Council in the direct delivery of those services for which it has a statutory or discretionary responsibility.
POST BALANCE SHEET EVENTS	Those events, both favourable and unfavourable, which occur between the balance sheet date and the date on which the Statement of Accounts is signed by the responsible financial officer.
PRIOR YEAR ADJUSTMENT	Those material adjustments applicable to prior years arising from changes in accounting policies or from the correction of fundamental errors. They do not include normal recurring corrections or adjustments of accounting estimates made in prior years.
PROVISION	Any liabilities or losses that are likely to be incurred, or certain to be incurred, but it is uncertain as to the amounts or dates on which they will arise.
PRUDENCE	The concept that revenue is not anticipated but is recognised only when realised in the form either of cash or of other assets the ultimate cash realisation of which can be assessed with reasonable certainty.
RESERVES	Amounts set aside for purposes falling outside the definition of a provision and include general reserves, or balances, which every authority must maintain as a matter of prudence.
USEFUL LIFE	The period over which the local authority will derive benefits from the use of a fixed asset.

Statement Of Responsibilities For The Statement Of Accounts

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 authority, that officer is the Head of Resources.
- ◆ manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets.
- ◆ approve the Statement of Accounts.

Responsibilities of the Head of Resources:

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

In preparing this Statement of Accounts, the *Head of Resources* has selected suitable accounting policies and then applied them consistently, made judgements and estimates that were reasonable and prudent and complied with the Code of Practice.

The Head of Resources 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.
- ◆ certifies that the Statement of Accounts presents fairly the financial position of the Council at the 31 March, 2006 and its income and expenditure for the year then ended.

Signed:

Head of Resources

Date: 20 June 2006

1. Scope of responsibility

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

In discharging this overall responsibility, the Council is also responsible for ensuring that there is a sound system of internal control which facilitates the effective exercise of the Council's functions and which includes arrangements for the management of risk.

2. The Purpose of the System of Internal Control

The system of internal control is designed to manage risk to a reasonable level, rather than to eliminate all risk of failure to achieve policies, aims and objectives. It can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on a process designed to:-

- identify and prioritise the risks to the achievement of Council policies, aims and objectives;
- evaluate the likelihood of those risks being realised and the impact should they be realised;
- manage risks efficiently, effectively and economically.

3. The Internal Control Framework

The system of internal financial control is based on a framework of regular management information, financial procedure rules, administrative procedures, management supervision and a system of delegation and accountability.

The key elements of the Council's internal control environment are summarised below. Where reference is made to documents below details are available from the Council on request or may, in most cases, be viewed on the Council's website (www.havant.gov.uk).

Establishing and monitoring the achievement of the Council's objectives:-

- Community Strategy
- Corporate Strategy
- Medium Term Financial Strategy
- Regeneration and Cultural Strategies
- Local Development Framework
- All other Council strategies
- Executive and Council

Facilitation of policy and decision-making:-

- Council's Constitution
- Published Council papers (available on the website)
- Executive, Council and Overview and Scrutiny

Ensuring compliance with established policies, procedures, laws and regulations:-

- Monitoring Officer (Solicitor to the Council)

Statement on Internal Control 2005/2006 (cont'd)

- Overview and Scrutiny Boards
- Executive and Council
- Code of Corporate Governance
- Risk Management Strategy
- Internal Audit
- External Audit and Inspection
- Whistle Blowing Procedure
- Personnel and Learning policies
- Anti-fraud and Corruption Strategy
- Disciplinary and Grievance procedures
- Constitution and schemes of delegation
- Financial Framework
- Code of Conduct for Members
- Code of Conduct for Officers
- Health and Safety Policies
- Complaints system

Ensuring the economical, effective and efficient use of resources and securing continuous improvement in the way functions are exercised:-

- Executive and Council
- Overview and Scrutiny Boards
- Corporate Strategy (including the Best Value Performance Plan)
- Corporate Strategy workstreams including service review, partnerships working and income generation
- Business Planning
- Performance Management framework
- Financial Management budgeting and reporting
- Published Statement of Accounts
- Procurement Strategy
- Audit and Inspection
- Project management standards
- Risk Profiling

Financial Management of the Council:-

- Executive and Council
- Section 151 Chief Financial Officer
- Internal Audit
- Financial Framework including named budget holders
- Audit and Inspection
- Scrutiny and Review Panels
- Council's Constitution

Performance Management:-

- Performance Management framework
- Performance and Development (appraisal) Scheme
- Performance Development Officers

4. Review of Effectiveness of Control

The Council has responsibility for conducting, at least annually, a review of the effectiveness

Statement on Internal Control 2005/2006 (cont'd)

of the system of internal control. The Council has adopted a cabinet structure to oversee the executive management decisions. Executive Management Team is responsible for advising the cabinet (known as "the Executive") and Council on the Council's strategic plans and ensuring that the control framework is in place for managing and directing the strategic plan. Council has appointed two Overview and Scrutiny Boards that are responsible for co-ordinating overview and scrutiny work. The Standards Committee undertakes the role of Audit Committee and has met regularly throughout the year and received formal reports from the Audit Manager.

The Council has adopted a structured approach to risk identification to cover strategic, business capability, financial and corporate governance risks. The risks are updated by considering their potential impact and their likelihood. The Staffing Matters Committee undertakes the Member Risk Management Committee role.

The process applied to maintaining and reviewing the effectiveness of the system of internal control includes contributions from:-

The Standards Committee, which:-

- Receives a comprehensive internal audit progress report incorporating situation reports and the executive summaries of all internal audit reports.
- Approves this Statement and the Statement of Accounts.
- Receives quarterly monitoring reports on audit issues.

The Leader and Corporate Portfolio Holder, who:-

- Review this Statement and the Code of Corporate Governance.

The Staffing Matters Committee, who:-

- Are responsible for Risk Management and review this Statement.

Executive Management Team, which:-

- Reviews this Statement.
- Monitors progress with the more significant internal audit recommendations and deals with management of risk issues.
- Each member of Executive Management Team signs an annual statement of assurance to inform the preparation of this Statement.

Internal Audit, which:-

- Compiles an internal audit programme based on the Corporate Risk Register.
- Reports to Executive Management Team and the Standards Committee on progress with the audit programme, the outcome of individual audits, including audit findings, the risks to which they give rise, recommendations to mitigate the risks, management's responses, implementation targets and progress with implementing recommendations. There has been a steady improvement in implementing audit recommendations in the last year.
- Tracks recommendations to implementation or until superseded.
- Gives an annual opinion on the internal control environment and issues that should be included in this Statement.

External Audit, which:-

- Provides an Annual Audit and Inspection Letter. The latest letter indicated that the Council maintains a sound system of internal control.
- Carries out a "Use of Resources" assessment – the Council has achieved a score of 3 (out of 4) for this assessment

Statement on Internal Control 2005/2006 (cont'd)

Risk Management Strategy Group which:-

- Co-ordinates risk management development and reviews of risks and controls with officer Risk Champions.
- Reviews this Statement.

Monitoring Officer, who:-

- Reviews this Statement.

As required by the Accounts and Audit (Amendment) (England) Regulations 2006 Executive Management Team has reviewed the effectiveness of Internal Audit, in the light of feedback following each audit and the conclusions of a review by external audit, and has concluded that internal audit is an effective part of the Council's internal control environment.

5. Significant Internal Control Issues

It is considered that there are no significant internal control issues. Set out below are matters identified that, although they do not represent a significant control risk or control weakness, when implemented will improve the overall internal control, efficiency and standard of governance:-

1. Performance management has been strengthened but needs to be reflected in measurable outcomes through performance indicators and more consistent application of the appraisal system. Executive Management Team is taking action to achieve this.
2. The Council needs to establish effective Business Continuity Planning across the authority to improve the control environment for service delivery. Work on this is underway and internal audit is reviewing progress.
3. There is an overall framework in place for Risk Management. The Council needs to build upon this and key actions required include risk assessment of partnerships and demonstrating links to the Corporate Strategy and service objectives. The Risk Management Strategy Group is leading on this.
4. There are risks associated with the extent of change management issues, including the consequences and workloads associated with an expected Local Government Review White Paper from government in 2006. These risks will be mitigated through the Partnership for Urban South Hampshire (PUSH) and the Hampshire and Isle of Wight Local Government Association (HIOWLGA), through monitoring of Business Plans by Executive Management Team and through training and re-skilling.
5. There are risks associated with the combined impact on staff of service reviews, organisational structure change and the Review of Pay and Rewards during 2006/2007. These risks are being actively managed by Executive Management Team.
6. Improvements to client monitoring of major contracts, including ICT and Revenues and Benefits, agreed with internal audit need to be fully embedded. This is reflected in relevant Business Plans.
7. Ownership of health and safety issues has improved but further embedding is required with some managers.
8. There is a need for further training of Members and officers regarding risk management, project management and other internal control issues.

Signed

Councillor David Gillett
Leader of the Council
June 2006

.....
Gwen Andrews
Managing Director
June 2006

Independent Auditors' Report To Havant Borough Council

Opinion on the financial statements

We have audited the financial statements of Havant Borough Council for the year ended 31 March 2006 under the Audit Commission Act 1998, which comprise the Consolidated Revenue Account, the Collection Fund, the Consolidated Balance Sheet, the Statement of Total Movements in Reserves, the Cash Flow Statement and the related notes. These financial statements have been prepared under the accounting policies set out within them.

This report is made solely to Havant Borough Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 36 of the Statement of Responsibilities of Auditors and of Audited Bodies prepared by the Audit Commission. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than Havant Borough Council for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Chief Finance Officer and auditors

The Chief Finance Officer's responsibilities for preparing the financial statements in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2005 are set out in the Statement of Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements presents fairly the financial position of the Authority in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2005.

We review whether the statement on internal control reflects compliance with CIPFA's guidance "The Statement on Internal Control in Local Government: Meeting the requirements of the Accounts and Audit Regulations 2003" published on 2 April 2004. We report if it does not comply with proper practices specified by CIPFA or if the statement is misleading or inconsistent with other information we are aware of from our audit of the financial statements. We are not required to consider, nor have we considered, whether the statement on internal control covers all risks and controls. We are also not required to form an opinion on the effectiveness of the Authority's corporate governance procedures or its risk and control procedures.

We read other information published with the financial statements, and consider whether it is consistent with the audited financial statements. This other information comprises only the Explanatory Foreword. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with the Audit Commission Act 1998, the Code of Audit Practice issued by the Audit Commission and International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Authority in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Authority's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements present fairly, in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2005, the financial position of the Authority as at 31 March 2006 and its income and expenditure for the year then ended.

Mazars LLP

Chartered Accountants & Registered Auditors
Southampton
29 September 2006

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

Authority's Responsibilities

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 regularly review the adequacy and effectiveness of these arrangements. Under the Local Government Act 1999, the Authority is required to prepare and publish a Best Value Performance Plan summarising the Authority's assessment of its performance and position in relation to its statutory duty to make arrangements to ensure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

We are required by the Audit Commission Act 1998 to be satisfied that proper arrangements have been made by the Authority for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires us to report to you our conclusion in relation to proper arrangements, having regard to relevant criteria specified by the Audit Commission for principal local authorities. We report if significant matters have come to our attention which prevent us from concluding that the authority has made such proper arrangements. 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.

We are required by section 7 of the Local Government Act 1999 to carry out an audit of the Authority's Best Value Performance Plan and issue a report:

- certifying that we have done so;
- stating whether we believe that the plan has been prepared and published in accordance with statutory requirements set out in section 6 of the Local Government Act 1999 and statutory guidance; and
- where relevant, making any recommendations under section 7 of the Local Government Act 1999.

Conclusion

We have undertaken our audit in accordance with the Code of Audit Practice and we are satisfied that, having regard to the criteria for principal local authorities specified by the Audit Commission and published in July 2005, in all significant respects, Havant Borough Council made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2006.

Best Value Performance Plan

We issued our statutory report on the audit of the Authority's Best Value Performance Plan for the financial year 2005/06 on 6 December 2005. We did not identify any matters to be reported to the Authority and did not make any recommendations on procedures in relation to the plan.

Certificate

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

Mazars LLP

Chartered Accountants & Registered Auditors
Southampton
29 September 2006