

EASTLEIGH BOROUGH COUNCIL

Statement of Accounts

and Annual Governance Statement

for the financial year 2007-08

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CONTENTS

EXPLANATORY FOREWORD	1
STATEMENT OF ACCOUNTING POLICIES	7
STATEMENT OF RESPONSIBILITIES FOR THE STATEMENT OF ACCOUNTS	17
INCOME AND EXPENDITURE ACCOUNT	18
STATEMENT OF MOVEMENT ON THE GENERAL FUND BALANCE	19
STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES	20
BALANCE SHEET	21
CASH FLOW STATEMENT	23
NOTES TO THE ACCOUNTS	25
COLLECTION FUND	59
NOTES TO THE COLLECTION FUND	60
GOVERNANCE STATEMENT	62
INDEPENDENT AUDITORS REPORT	79
GLOSSARY OF TERMS	82

EXPLANATORY FOREWORD

1 Introduction

The accounting statements that follow show the Council's financial performance for the year 2007-08. The style of presentation of the statement is determined by a code of practice that the Council is legally required to follow. The Council's accounts for the year 2007-08 consist of the following statements:

- **Statement of Accounting Policies** - the purpose of which is to explain the basis of recognition, measurement and disclosure of transactions and other events in the accounts.

- **Statement of Responsibilities for the Statement of Accounts** - this statement describes the Authority's and Chief Financial Officer's responsibilities in relation to the administration of the Council's affairs.

- **The Accounting Statements** - there are five core financial statements, listed below:

Income and Expenditure Account - report of the net cost for the year of all the functions for which the Council is responsible, together with a summary of how that cost has been financed from central government grants and income from local taxpayers.

Statement of Movement on the General Fund Balance - a statement of the amounts in addition to the Income and Expenditure Account for the year that are required by statute and non-statutory proper practices to be charged or credited to the General Fund.

Statement of Total Recognised Gains and Losses (STRGL) - This statement brings together all the gains and losses of the Council for the year and shows the aggregate increase/decrease in its net worth.

Balance Sheet - a fundamental statement of the Council's financial position at the year end. It shows balances and reserves and its long-term indebtedness, and the fixed and net current assets employed in its operations, together with summarised information on the fixed assets held.

Cash Flow Statement - this consolidated statement summarises the inflows and outflows of cash arising from transactions with third parties for revenue and capital purposes.

- **Notes to the Accounts** - these are essential notes that the reader will find of particular assistance regarding interpretation of the core financial statements.

- **Collection Fund** - this account reflects the statutory requirement for the Council (as a billing Authority) to maintain a separate Collection Fund, which shows the transactions of the Council as a billing Authority in relation to non-domestic rates and the council tax. The statements to the fund illustrate the way in which these have been distributed to preceptors and the General Fund.

- **Notes to the Collection Fund** - further explanatory information about the collection fund.

- **Independent auditors report to the members of Eastleigh Borough Council**

- **Glossary of terms**

1 Introduction (continued)

● **Governance Statement - including details on Internal Control** - regulation 4(2) of The Accounts and Audit Regulations 2003 require the Council to conduct a review at least once a year of the effectiveness of its system of internal control, and to include alongside the statement of accounts a governance statement.

The annual governance statement subsumes the statement on internal control. Readers of this statement of accounts will therefore find reference to internal control within the annual governance statement for 2007-08.

2 Statutory changes regarding the SORP 2007

For 2007-08, the statements contained within this set of accounts incorporate some changes from the statement of accounts that the Council produced in 2006-07 and earlier years. The main changes that have effect on the Council are:

● **Financial Instruments** - New accounting requirements for the year based on FRS 25, FRS 26 and FRS 29 have been introduced. Significant disclosure additions have been made in these accounts in relation to financial instruments.

● **Revaluation Reserve & Capital Adjustment Account** - The Fixed Asset Restatement Reserve has now been replaced with a Revaluation Reserve as at 31st March 2007. In accordance with the specific requirements of the SORP 2007, the change is made prospectively and consequently the opening balance of the Revaluation Reserve is zero. The accounting requirements for setting up the zero balance are:

Recording a figure for depreciated historical cost as at 31 March 2007 for each asset in the register equal to the asset's current value at that date

Writing the Fixed Asset Restatement Account (FARA) down to zero to reflect the absence of any recorded revaluation gains

Posting the writing down of the balance on FARA to the Capital Financing Account, converting the latter into the Capital Adjustment Account

The purpose of the Capital Adjustment Account will be to bear:

The historical cost of acquiring, creating or enhancing fixed assets, over the life of those assets

The historical cost of deferred charges

To be credited with the resources set aside to finance capital expenditure

EXPLANATORY FOREWORD continued

3 Net revenue service expenditure and sources of funding, compared to budget

The 2007-08 service expenditure, interest payable and other operating costs is disclosed in the table below, showing income from grants, local taxpayers and other sources, compared to the approved budget for the year.

2006-07 Net revenue service expenditure and sources of funding		2007-08		
Actual		Approved Budget	Actual	
Net Exp £000		Net Exp £000	Net Exp £000	Variance £000
15,347	Net Cost of Services	19,964	18,510	(1,454)
456	Interest payable and similar charges	344	300	(44)
(980)	Interest and investment income	(1,181)	(1,257)	(76)
2,432	All other operating costs	2,518	1,829	(689)
17,255	Net Operating Expenditure	21,645	19,382	(2,263)
(7,262)	Demand on the Collection Fund	(7,564)	(7,564)	-
(1,186)	General government grants	(1,066)	(1,066)	-
(5,970)	Non-domestic rates redistribution	(6,354)	(6,354)	-
2,837	Deficit for the year	6,661	4,398	(2,263)
(3,253)	Net additional amount required by statute and non-statutory proper practices to be debited or credited to the General Fund	(6,058)	(4,787)	1,271
(416)	(Increase) in General Fund Balance	603	(389)	(992)

● **Summary of financial performance** - The overall revenue position for the Income and Expenditure in 2007-08 results in a surplus of £389,000 being transferred to the General Fund Reserve. This compares favourably against the approved budget for the financial year, which projected a contribution being required from the General Fund Reserve of £603,000.

The Management Team intend to undertake a review in 2008-09 to consider areas where budget forecasts were significantly inaccurate, and whether methods relating to the computation of future budgets should be improved. However, the favourable variance will enable members to approve the following initiatives in early 2008-09:

Town Centre Regeneration
 Corporation Estates - Rent Review Consultants
 Clean Neighbourhood Worker
 Planning Policy & Design - Printing
 Human Resources - Health & Safety
 Asset Management review
 Civic Offices Travel Plan

Economic Development - LABGI
 Corporate Recruitment & Retention
 Carbon Neutral Fund
 Eastleigh Business Centre Toilets
 Central Training
 Swan Centre Night Bus Service
 Other minor budget improvements

EXPLANATORY FOREWORD continued

4 Material assets acquired or liabilities incurred in the year

Items of capital expenditure that resulted in material additions to fixed assets in the year are listed below.

Material assets acquired

2006-07 £000	Items of material capital expenditure that resulted in addition to fixed assets in the year 2007-08 (The amount of expenditure for the same assets is given for 2006-07).	2007-08 £000
126	Community Facility Redevelopment	2,348
379	Vehicle Replacement Programme	939
13	South Hampshire Strategic Employment Zone	600
37	The Hub Play Areas - External Improvements	462
370	Grange Park Sewer Replacement	245
	- Civic Offices improvements	122
167	Combined Heat and Power Scheme	101
1,092	Total value of all material capital expenditure items that resulted in fixed assets in the year 2007-08	4,817

Material liabilities incurred

No new material liabilities arose in the financial year 2007-08. The Council's balance sheet includes references to liabilities such as creditors, cash overdrawn, borrowing, capital contributions unapplied and pensions. However, these total liabilities stated at the end of the financial year 2007-08 are comparable to the position at the end of the previous financial year.

Each of the liabilities are discussed in some detail within the notes to the accounts starting on page 25.

5 Other significant changes

● **Significance of pensions liability** - Under the requirements of Financial Reporting Standard 17 (FRS17), costs of services delivered by the Council are restated to include an actuarially assessed cost of the increased liability falling upon the Council in respect of pensions under the Local Government Pension Scheme, as opposed to the actual employer contributions paid during the year in accordance with the scheme.

Adjustments are made to the cost of services in the Income & Expenditure account to ensure that the impact on council tax is neutral. The requirements are linked to the Pension scheme's assets and liabilities, offset by a Pension Reserve.

At 31 March 2008 there was a Pension liability of £19.77million (m) with a corresponding negative Pension Reserve. This Pension liability is the difference between the value at 31 March 2008 of the scheme's assets (investments and other items) attributable to the Council and the present value of the liabilities relating to pensions for Council employees (past and present). The Pension liability of £19.77m at 31 March 2008 has significantly changed from 31 March 2007 (£28.03m).

EXPLANATORY FOREWORD continued

5 Other significant changes continued

- **Material charge or credit** - the Council secured the sale of land located in Eastleigh known as South Street in October 2007 for which it received £10.1m. The resulting capital receipt is of significant value to the Council and will be used to stimulate the capital investment program over the coming future years.

- **Significant change in accounting policies** - Accruals of interest for both investments and borrowings are now an integral part of the carrying amount of financial instruments for the year 2007-08 and onwards. This is a change from previous accounting practice. The change results from the transition to the requirements of FRS 25, FRS 26 & FRS 29 relating to financial instruments. The Council's accounting policy for accruals of income and expenditure has therefore been amended in accordance with these new requirements.

- **Major change in statutory function** - there have been no changes in statutory functions made in the year 2007-08.

6 Current borrowing facilities and capital borrowing

The table below shows the changes to borrowing related to capital expenditure incurred in previous financial years. No debt was incurred in relation to the 2007-08 capital expenditure.

2006-07 £000	Changes made to borrowing as defined by the Prudential Code for the year 2007-08	2007-08 £000
5,662	Accumulated Prudential Code debt outstanding at the beginning of the year	3,806
	<u>Transactions in the year</u>	
(520)	Capital receipts used to finance debt outstanding in relation to vehicles financed by borrowing in 2004-05	-
(1,196)	Capital receipts used to finance debt outstanding in relation to vehicles financed by borrowing in 2005-06	-
86	Voluntary revenue provision (transferred back to the I & E Account)	-
(226)	Minimum revenue provision transferred to I & E Account	(146)
3,806	Prudential Code debt outstanding at the end of the financial year	3,660

Current borrowing is almost entirely of a short-term nature, and continues to remain relatively minor. Short-term loans relate to borrowing repayable on demand or within 12 months. These loans are taken to maintain cash flow, due to the nature of the money market. The table below shows the borrowing at the end of the year 2007-08, compared to the position at the end of the previous financial year.

31 03 07 £000	Current borrowing	31 03 08 £000
(1,813)	Short-term borrowing	(754)
(30)	Long-term borrowing	(26)
	Refer to the table at the top of page 6 for maturity analysis	
(1,843)	Total of all current borrowing	(780)

The current borrowing at 31 March 2008 includes accruals for principal and interest in accordance with the SORP 2007. The amounts as at 31 March 2007 do not include such accruals.

EXPLANATORY FOREWORD continued

6 Current borrowing facilities and capital borrowing continued

The long-term borrowing quoted in the table at the base of page 5 is as follows:

31 03 07 £000	Maturity analysis of the long-term borrowing	31 03 08 £000
	Maturity within:	
(4)	>1 to <2 years	(2)
(9)	>2 to <5 years	(7)
(5)	>5 to <10 years	(11)
(12)	>10 years	(6)
(30)	Total long-term borrowing	(26)

7 Summary of the Council's internal and external sources of funds to meet capital expenditure

The resources applied to finance the year's capital expenditure therefore fully accord to the equivalent value of the year's expenditure. The table below gives a brief analysis of the resources applied.

2006-07 £000	Capital expenditure and resources applied for the year	2007-08 £000
6,831	The total capital expenditure in the year	10,359
	Resources applied to finance capital expenditure incurred in the year	
	<u>External resources</u>	
940	Grants	1,218
2,103	Developer's contributions	2,314
	<u>Internal resources</u>	
3,208	Capital receipts	6,481
454	Revenue contribution to capital	271
126	Use of reserves	75
6,831	Total of all resources applied to finance capital expenditure	10,359

The Council's actual capital expenditure in the year was £10,359,000. The Council achieved 93% of the final approved capital budget of £11,194,000.

STATEMENT OF ACCOUNTING POLICIES

1 General Principles

The Statement of Accounts summarises the Council's transactions for the 2007-08 financial year and its position at the year-end of 31 March 2008. It has been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom - A Statement of Recommended Practice 2007 (the SORP). The accounting convention adopted is historical cost, modified by the revaluation of certain categories of tangible fixed assets.

2 Accruals of Income and Expenditure

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

Fees, charges and rents due from customers are accounted for as income at the date the Council provides the relevant goods or services.

Supplies are recorded as expenditure when they are consumed - where there is a gap between the date supplies are received and their consumption, they are carried as stocks on the balance sheet where the items purchased are of a material nature.

Works are charged as expenditure when they are completed, before which they are carried as assets under construction on the balance sheet.

Interest payable on borrowings and receivable on investments is accounted for in the year to which it relates, on a basis that reflects the overall effect of the loan or investment. Interest accruals are an integral part of the carrying amount of financial instruments.

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

Income and expenditure are credited and debited to the relevant service revenue account, unless they properly represent capital receipts or capital expenditure.

3 Provisions

Provisions are made where an event has taken place that gives the Council an obligation that probably requires settlement by a transfer of economic benefits, but where the timing of the transfer is uncertain. For instance, the Council may be involved in a court case that could eventually result in the making of a settlement or the payment of compensation.

Provisions are charged to the appropriate service revenue account in the year that 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. Estimated settlements are reviewed at the end of each financial year - where it becomes more likely than not that a transfer of economic benefits will not now be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant service revenue account.

STATEMENT OF ACCOUNTING POLICIES continued

3 Provisions continued

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

4 Reserves

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

Certain reserves are kept to manage the accounting processes for tangible fixed assets and retirement benefits that do not represent usable resources for the council - these reserves are explained in the relevant policies that follow.

5 Government Grants and Contributions (Revenue)

Whether paid on account, by instalments or in arrears, government grants and third party contributions and donations are recognised as income at the date that the Council satisfies the conditions of entitlement to the grant/contribution, there is reasonable assurance that the monies will be received and the expenditure for which the grant is given has been incurred. Revenue grants are matched in service revenue accounts with the service expenditure to which they relate. Grants to cover general expenditure (e.g. Revenue Support Grant) are credited to the foot of the Income and Expenditure Account after Net Operating Expenditure.

6 Retirement Benefits

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

The Local Government Pension Scheme is accounted for as a defined benefits scheme meaning that the liabilities of the Hampshire County Council pension scheme attributable to the Council are included in the balance sheet on an actuarial basis using the projected unit method – i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc, and projections of projected earnings for current employees.

Liabilities are discounted to their value at current prices in respect of the Council after the accounting date using the projected unit method. Allowance is made for the expected future increases in pay and pension. The liability value represents the amount of money that needs to be set-aside now to meet the benefits that the Council is committed to provide for the service up to the accounting date on the basis of the assumptions made.

6 Retirement Benefits continued

The assets of the Hampshire County Council pension fund attributable to the Council are included in the balance sheet by making assumptions about their long-term rate of return. In particular, the key financial assumption for discount rates at 31 March 2008 and 31 March 2007 are based on the annualised yield on the iBoxx over 15 year AA rated corporate bond index.

The change in the net pension's liability is analysed into seven components:

Current service cost - the increase in liabilities arising from years of service earned this year - allocated in the Income and Expenditure Account to the revenue accounts of services for which the employees worked.

Past service cost - the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years - debited to the Net Cost of Services in the Income and Expenditure Account as part of Non Distributed Costs.

Interest cost - the expected increase in the present value of liabilities during the year as they move one year closer to being paid - debited to Net Operating Expenditure in the Income and Expenditure Account.

Expected return on assets - the annual investment return on the fund assets attributable to the Council, based on an average of the expected long-term return - credited to Net Operating Expenditure in the Income and Expenditure Account.

Gains/losses on settlements and curtailments - the result of actions to relieve the council of liabilities or events that reduce the expected future service or accrual of benefits of employees - debited to the Net Cost of Services in the Income and Expenditure Account as part of Non Distributed Costs.

Actuarial gains and losses - changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions - debited to the Statement of Total Recognised Gains and Losses.

Contributions paid to the Hampshire County Council pension fund - cash paid as employer's contributions to the pension fund.

Statutory provisions limit the Council to raising council tax to cover the amounts payable by the Council to the pension fund in the year. In the Statement of Movement on the General Fund Balance this means that there are appropriations to and from the Pensions Reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund and any amounts payable to the fund but unpaid at the year-end.

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

7 VAT

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

8 Overheads and Support Services

The costs of overheads and support services are charged to those services that benefit from the supply or service in accordance with the costing principles of the CIPFA Best Value Accounting Code of Practice 2007. The total absorption costing principle is used - the full cost of overheads and support services are shared between users in proportion to the benefits received, with the exception of:

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

Non Distributed Costs - the cost of discretionary benefits awarded to employees retiring early.

These two cost categories are combined in the Income and Expenditure Account as part of Net Cost of Services.

9 Intangible Fixed Assets

Expenditure on assets that do not have physical substance but are identifiable and controlled by the Council (e.g. software licences) is capitalised when it will bring benefits to the Council for more than one financial year. The balance is amortised to the relevant service revenue account over the economic life of the investment to reflect the pattern of consumption of benefits.

Amortisation on software licences is applied over a 5 year period utilising the straight line method. Detailed information on amortisation is given on page 33.

10 Tangible Fixed Assets

Tangible fixed assets are assets that have physical substance and are held for use in the provision of services or for administrative purposes on a continuing basis.

Recognition: expenditure on the acquisition, creation or enhancement of tangible fixed assets is capitalised on an accruals basis, provided that it yields benefits to the Council and the services that it provides for more than one financial year. Expenditure that secures but does not extend the previously assessed standards of performance of asset (e.g. repairs and maintenance) is charged to revenue as it is incurred.

Measurement: Assets are initially measured at cost, comprising all expenditure that is directly attributable to bringing the asset into working condition for its intended use. Assets are then carried in the balance sheet using the following measurement bases:

- Investment properties (which were subject to a revaluation at 1 April 2004), and assets surplus to requirements have been included on the balance sheet at full market value.

10 Tangible Fixed Assets continued

- Other land and buildings - lower of net current replacement cost or net realisable value in existing use.

- Vehicles, plant and equipment - historic cost.

- Infrastructure assets and community assets - depreciated historical cost.

Net current replacement cost is assessed as:

- Non-specialised operational properties - existing use value.

- Specialised operational properties - depreciated replacement cost.

- Investment properties and surplus assets - market value.

Assets included in the balance sheet at current value are revalued where there have been material changes in the value, but as a minimum every five years. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. Exceptionally, gains might be credited to the Income and Expenditure Account where they arise from the reversal of an impairment loss previously charged to a service revenue account.

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

Impairment: the values of each category of assets and of material individual assets that are not being depreciated are reviewed at the end of each financial year for evidence of reductions in value. Where impairment is identified as part of this review or as a result of a valuation exercise, this is accounted in one of the following two ways:

- Where attributable to the clear consumption of economic benefits - the loss is charged to the relevant service revenue account

- Otherwise - written off against the Revaluation Reserve.

Where an impairment loss is charged to the Income and Expenditure Account but there were accumulated revaluation gains in the Revaluation Reserve for that asset, an amount up to the value of the loss is transferred from the Revaluation Reserve to the Capital Adjustment Account.

Disposals: when an asset is disposed of or decommissioned, the value of the asset in the balance sheet is written off to the Income and Expenditure Account as part of the gain or loss on disposal. Receipts from disposals are credited to the Income and Expenditure Account as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal).

STATEMENT OF ACCOUNTING POLICIES continued

10 Tangible Fixed Assets continued

Amounts in excess of £10,000 are categorised as capital receipts. A proportion of receipts associated to housing related item disposals (75% for dwellings, 50% for land and other assets, net of statutory deductions and allowances) is payable to the Government. The balance of receipts is required to be credited to the Usable Capital Receipts reserve, and can then only be used for new capital investment or set aside to reduce the council's underlying need to borrow (the capital financing requirement). Receipts are appropriated to the Reserve from the Statement of Movement on the General Fund Balance.

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

Depreciation is provided for on all assets with a determinable finite life (except for investment properties), by allocating the value of the asset in the balance sheet over the periods expected to benefit from their use. The Council's policy is disclosed in the table below.

Asset classification	Years	%	Depreciation method
Buildings, community, infrastructure	-	2	reducing balance
Land and Investment properties	-	-	not depreciated
Vehicles	5	-	straight line
Playgrounds	10	-	straight line
Plant and equipment	3 - 15	-	straight line
Assets under construction	-	-	not depreciated

Detailed information on depreciation is given on page 33.

Grants and contributions: where grants and contributions are received that are identifiable to fixed assets with a finite useful life, the amounts are credited to the Government Grants Deferred Account. The balance is then written down to revenue to offset depreciation charges made for the related assets in the relevant service account.

11 Charges to Revenue for Fixed Assets

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

- Depreciation attributable to the assets used by the relevant service;
- Impairment losses attributable to the clear consumption of economic benefits on tangible fixed assets used by the service;
- Amortisation of intangible fixed assets attributable to the service.

The Council is not required to raise council tax to cover depreciation, impairment losses or amortisations. 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). Depreciation, impairment losses and amortisations are therefore replaced by revenue provision in the Statement of Movement on the General Fund Balance, by way of an adjusting transaction with the Capital Adjustment Account for the difference between the two.

12 Revaluations

In accordance with the accounting code of practice, periodic revaluation of fixed assets is undertaken every five years or less. Upon revaluation, the fixed assets figure in the balance sheet is amended to reflect the revised valuation along with a corresponding entry in the revaluation reserve. Most land and buildings were subject to revaluation on 1 April 2004 following work undertaken by RICS qualified staff in the District Valuer Service of the VOA.

13 Income from disposals of fixed assets

Income received from the disposal of fixed assets has been applied to the usable capital receipts reserve on the balance sheet with the exception of some housing asset disposals which are deemed to be revenue income as they are under £10,000. At the time of disposal, the net book value of the asset sold is deducted from the relevant fixed asset category on the balance sheet and written off against the fixed asset restatement account. In addition, receipts for less than £10,000 derived from the sale of vehicles are retained by services and not applied to the Usable Capital Receipts Reserve.

14 Deferred Charges

Deferred charges represent expenditure that may be capitalised under statutory provisions but does not result in the creation of tangible assets for the Council. Deferred charges incurred during the year have been written off as expenditure to the relevant service revenue account in the year. Where the Council has determined to meet the cost of the deferred charges from existing capital resources or by borrowing, a transfer to the Capital Adjustment Account then reverses out the amounts charged in the Statement of Movement on the General Fund Balance so there is no impact on the level of council tax.

15 Leases

Finance Leases - The Council accounts for leases as finance leases when substantially all the risks and rewards relating to the leased property transfer to the Council. Rentals payable are apportioned between:

- A charge for the acquisition of the interest in the property (recognised as a liability in the balance sheet at the start of the lease, matched with a tangible fixed asset - the liability is written down as the rent becomes payable).
- A finance charge (debited to Net Operating Expenditure in the Income and Expenditure Account as the rent becomes payable).

Fixed assets recognised under finance leases are accounted for using the policies applied generally to Tangible Fixed Assets, subject to depreciation being charged over the lease term if this is shorter than the asset's estimated useful life.

Operating Leases - Leases that do not meet the definition of finance leases are accounted for as operating leases. Rentals payable are charged to the relevant service revenue account on a straight-line basis over the term of the lease, generally meaning that rentals are charged when they become payable.

16 Financial Liabilities

Financial liabilities are initially measured at fair value and carried at their amortised cost. Annual charges to the Income and Expenditure Account for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. For most of the borrowings that the council has, this means that the amount presented in the Balance Sheet is the outstanding principal repayable and interest charged to the Income and Expenditure Account is the amount payable for the year in the loan agreement.

Gains and losses on the repurchase or early settlement of borrowing are credited and debited to Net Operating Expenditure in the Income and Expenditure Account in the year of repurchase/settlement. However, where repurchase has taken place as part of a restructuring of the loan portfolio that involves the modification or exchange of existing instruments, the premium or discount is respectively deducted from or added to the amortised cost of the new or modified loan and the write-down to the Income and Expenditure Account is spread over the life of the loan by an adjustment to the effective interest rate.

Where premiums and discounts have been charged to the Income and Expenditure Account, regulations allow the impact on the General Fund Balance to be spread over future years. The council has a policy of spreading the gain/loss over the term that was remaining on the loan against which the premium was payable or discount receivable when it was repaid. The reconciliation of amounts charged to the Income and Expenditure Account to the net charge required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Statement of Movement on the General Fund Balance.

17 Financial Assets

Financial assets are classified into two types:

- loans and receivables – assets that have fixed or determinable payments but are not quoted in an active market
- available-for-sale assets – assets that have a quoted market price and/or do not have fixed or determinable payments

Loans and receivables - are initially measured at fair value and carried at their amortised cost. Annual credits to the Income and Expenditure Account for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For most of the loans that the council has made, this means that the amount presented in the Balance Sheet is the outstanding principal receivable and interest credited to the Income and Expenditure Account is the amount receivable for the year in the loan agreement.

However, the council has made a number of loans to voluntary organisations at less than market rates (soft loans). When soft loans are made, a loss is recorded in the Income and Expenditure Account for the present value of the interest that will be foregone over the life of the instrument, resulting in a lower amortised cost than the outstanding principal. Interest is credited at a marginally higher effective rate of interest than the rate receivable from the voluntary organisations, with the difference serving to increase the amortised cost of the loan in the Balance Sheet.

STATEMENT OF ACCOUNTING POLICIES continued

Statutory provisions require that the impact of soft loans on the General Fund Balance is the interest receivable for the financial year – the reconciliation of amounts debited and credited to the Income and Expenditure Account to the net gain required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Statement of Movement on the General Fund Balance.

Where assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made, the asset is written down and a charge made to the Income and Expenditure Account.

Any gains and losses that arise on the derecognition of the asset are credited/debited to the Income and Expenditure Account.

Available-for-sale assets - are initially measured and carried at fair value. Where the asset has fixed or determinable payments, annual credits to the Income and Expenditure Account for interest receivable are based on the amortised cost of the asset multiplied by the effective rate of interest for the instrument. Where there are no fixed or determinable payments, income (eg, dividends) is credited to the Income and Expenditure Account when it becomes receivable by the Council.

Assets are maintained in the Balance Sheet at fair value. Values are based on the following principles:

instruments with quoted market prices – the market price

other instruments with fixed and determinable payments – discounted cash flow analysis

equity shares with no quoted market prices – independent appraisal of company valuations.

Changes in fair value are balanced by an entry in the Available-for-sale Reserve and the gain/loss is recognised in the Statement of Total Recognised Gains and Losses (STRGL). The exception is where impairment losses have been incurred – these are debited to the Income and Expenditure Account, along with any net gain/loss for the asset accumulated in the Reserve.

Where assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made, the asset is written down and a charge made to the Income and Expenditure Account.

Any gains and losses that arise on the derecognition of the asset are credited/debited to the Income and Expenditure Account, along with any accumulated gains/losses previously recognised in the STRGL.

Where fair value cannot be measured reliably, the instrument is carried at cost (less any impairment losses).

Instruments Entered Into Before 1 April 2006

Where the Council entered into financial guarantees in reference to instruments entered into before 1 April 2006 there is no requirement for these to be accounted as financial instruments. Such guarantees are reflected in the Statement of Accounts to the extent that provisions might be required or a contingent liability note is needed under the policies set out in policies 3 & 20.

STATEMENT OF ACCOUNTING POLICIES continued

Gains and losses on the repurchase or early settlement of borrowing are credited and debited to Net Operating Expenditure in the Income and Expenditure Account in the year of repurchase/settlement. However, where repurchase has taken place as part of a restructuring of the loan portfolio with substantially the same overall effect when viewed as a whole, gains and losses are recognised on the balance sheet and written down to revenue on a straight-line basis over the term of the replacement loans.

18 Stocks and Work in Progress

Stocks are included in the balance sheet at the lower of cost and net realisable value. Work in progress is subject to an interim valuation at the year-end and recorded in the balance sheet at cost.

19 Contingent Liabilities

Where the Council is aware of potential liabilities (usually from pending court decisions) that are likely to occur a provision is made. Where it is unlikely but possible, a contingent liability is disclosed in the notes to the accounts.

20 Contingent Assets

Where the Council is aware of significant contingent assets, a note is contained in the accounts describing the nature, value and date of potential receipt.

STATEMENT OF RESPONSIBILITIES FOR THE STATEMENT OF ACCOUNTS

The Authority's Responsibilities

The Authority is required to:

- Make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this Authority, that officer is the Chief Financial Officer;
- Manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets
- Approve the Statement of Accounts

Cllr J Wright

Chair of Audit & Risk Management Committee

Signature – document has been signed 24th June 2008 ... Copy of the signature can be made available by contacting Eastleigh Borough Council, Financial Services Unit, Corporate Accountancy – 023 8068 8005 corporate.accountancy@eastleigh.gov.uk

Date: 24th June 2008

The Chief Financial Officer's Responsibilities

The Chief Financial Officer is responsible for the preparation of the Authority's statement of accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the SORP).

In preparing this statement of accounts, the Chief Financial Officer has:

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

The Chief Financial Officer has also:

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

I certify that the Statement of Accounts presents fairly the financial position of Eastleigh Borough Council and its income and expenditure for the year ended 31 March 2008.

Nick Tustian CPFA

Corporate Director (CFO)

Signature – document has been signed 24th June 2008 ... Copy of the signature can be made available by contacting Eastleigh Borough Council, Financial Services Unit, Corporate Accountancy – 023 8068 8005 corporate.accountancy@eastleigh.gov.uk

Date: 24th June 2008

INCOME AND EXPENDITURE ACCOUNT

This statement is fundamental regarding the Council's activities, in that it reports the net cost for the year of all the functions for which the Council is responsible, and demonstrates how that cost has been financed from general government grants and income from local taxpayers. It brings together expenditure and income relating to all of the Council's functions.

2006-07 Net Exp £000	Income and Expenditure Account	2007-08			Note
		Gross Exp £000	Gross Income £000	Net Exp £000	
409	Central Services to the Public	1,443	853	590	
9,548	Cultural, Environmental and Planning Services	23,755	11,645	12,110	
1,081	Highways, Roads and Transport Services	6,833	5,328	1,505	
505	Housing Services	26,286	25,616	670	
17	Social Services	164	153	11	
3,787	Corporate and Democratic Core & non-distributed costs	6,489	2,865	3,624	
15,347	Net Cost of Services	64,970	46,460	18,510	
	- Surplus arising on the disposal of fixed assets			(789)	
1,794	Precepts of local precepting authorities			1,868	
456	Interest payable and similar charges			300	50
8	Amounts payable into the Housing Capital Receipts Pool			-	
(980)	Interest and investment income			(1,257)	50
630	Pensions interest cost and expected return on pensions assets			750	2
17,255	Net Operating Expenditure			19,382	
(7,262)	Demand on the Collection Fund			(7,564)	
(1,186)	General government grants			(1,066)	
(5,970)	Non-domestic rates redistribution			(6,354)	
2,837	Deficit for the year			4,398	

STATEMENT OF MOVEMENT ON THE GENERAL FUND BALANCE

This is a statement of the amounts in addition to the Income and Expenditure Account deficit for the year that are required by statute and non-statutory proper practices to be charged or credited to the General Fund.

2006-07 Net Exp £000	Statement of movement on the General Fund balance	2007-08 Net Exp £000	Note
2,837	Deficit for the year on the Income and Expenditure Account	4,398	
(3,253)	Net additional amount required by statute and non-statutory proper practices to be debited or credited to the General Fund Balance for the year (Reconciling items within this amount are shown below)	(4,787)	
(416)	(Increase) in General Fund Balance for the year	(389)	3
<u>2,271</u>	General Fund Balance Brought Forward	<u>2,687</u>	40
2,687	General Fund Balance Carried Forward	3,076	40
2006-07 Net Exp £000	Detail of the statutory and non-statutory amounts debited and credited to the General Fund	2007-08 Net Exp £000	
	Amounts included in the Income & Expenditure Account, but required by statute to be excluded when determining the Movement on the General Fund Balance for the year		
(42)	Amortisation of intangible fixed assets	(57)	15
(1,542)	Depreciation and impairment of fixed assets	(1,761)	16
2,257	Government grants deferred amortisation	2,328	34
(3,521)	Write downs of deferred charges to be financed from capital resources	(4,775)	23
-	Net gain on the sale of fixed assets	789	
(2,890)	Net charges made for retirement benefits in accordance with FRS17	(3,750)	35
	Amounts not included in the Income & Expenditure Account, but required to be included by statute when determining the Movement on the General Fund Balance for the year		
226	Minimum Revenue Provision for Capital Financing	146	37
454	Capital Expenditure charged in year to the General Fund Balance	271	
(8)	Transfer from Usable Capital Receipts equal to the amount payable into the Housing Capital Receipts Pool	-	38
1,890	Employer's contributions payable to the HCC pension fund	2,120	
	Transfers to or from the General Fund Balance that are required to be taken into account when determining the Movement on General Fund Balance for the year		
(77)	Net transfer to/(from) reserves	(98)	41
(3,253)	Net Additional Amount required to be added to the General Fund Balance for the year	(4,787)	

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

This statement brings together all the gains and losses of the Council for the year and shows the aggregate increase in its net worth. In addition to the deficit generated on the Income and Expenditure Account it includes unrealised gains and losses relating to the valuation of fixed assets, the re-measurement of the net liability to cover the cost of retirement benefits and other relevant items to show the increase/(decrease) in net worth of the balance sheet.

2006-07 Net Exp £000	Statement of total recognised gains and losses	2007-08 Net Exp £000	Note
(2,837)	(Deficit) for the year on the Income and Expenditure account (page 18)	(4,398)	
1,373	Surplus arising on the revaluation of fixed assets	12,301	36
220	Actuarial gains and losses on Pension Fund assets and liabilities	9,890	35
61	Surplus on the Collection Fund relating to Eastleigh Borough Council	23	
(1,183)	Total recognised gains/(losses) in the year	17,816	

BALANCE SHEET

The balance sheet represents a quantitative summary of the Council's financial condition at a specific point in time, including assets, liabilities and net worth.

@ 31 March 2007			Balance Sheet	@ 31 March 2008			Note
£000	£000	£000		£000	£000	£000	
346			<u>Intangible assets</u>	322			15
			<u>Tangible fixed assets</u>				
			<u>Operational assets</u>				
33,429			Other land and buildings	32,878			16
4,157			Vehicles, plant and equipment	5,440			16
1,380			Infrastructure Assets	1,353			16
7,549			Community Assets	10,636			16
			<u>Non-Operational assets</u>				
21,747			Investment Properties	22,340			16
1,567			Assets Under Construction	966			16
	70,175		Total Fixed Assets	73,935			
4,010			Long-term investments	10			27
521			Long-term debtors	433			28
	4,531			443			
		74,706	Total long-term assets			74,378	
113			Stocks and work in progress	125			
9			Cash and bank	7			
7,270			Debtors	6,254			29
8,102			Investments	19,856			30
	15,494		Total current assets		26,242		
(1,813)			Short-term borrowing	(754)			50
(5,989)			Creditors	(7,866)			31
(1,586)			Bank overdraft	(1,250)			50
	(9,388)			(9,870)			
		6,106	Total current assets less current liabilities			16,372	
		80,812	Total assets less current liabilities			90,750	
	(30)		Long-term borrowing		(26)		50
	(66)		Provisions		(65)		32
	(8,525)		Capital contributions unapplied		(7,708)		33
	(2,504)		Government grants deferred		(3,708)		34
	(28,030)		Liability related to defined benefit pension scheme		(19,770)		35
		(39,155)	Total long-term liabilities			(31,277)	
		41,657	Total assets less liabilities			59,473	

BALANCE SHEET continued

@ 31 March 2007 £000		@ 31 March 2008 £000	Note
	Represented by:		
	- Revaluation Reserve	-	36
61,322	Capital Adjustment Account	64,021	37
(28,030)	Pensions Reserve	(19,770)	35
3,500	Usable Capital Receipts Reserve	10,148	38
134	Deferred Capital Receipts	101	39
2,687	General Fund Balance	3,076	40
2,044	Earmarked reserves	1,897	41
			42
			&
			43
41,657		59,473	

CASH FLOW STATEMENT

The cash flow statement presents movements in cash and other assets that are similar to cash (cash equivalents). The purpose of the cash-flow statement is to explain the movement in cash and bank balances held by the Council from the end of the previous financial year (2006-07) through to the end of the financial year 2007-08.

2006-07 £000	Cash flow statement	2007-08 £000	2007-08 £000	2007-08 £000
	Revenue Activity			
	Cash outflows			
16,662	Cash paid to and on behalf of employees		16,872	
11,290	Other operating cash payments		14,378	
19,249	Housing Benefit paid out		19,008	
42,514	NNDR paid to national pool		43,928	
664	Council Tax refunds		756	
1,128	NNDR refunds		1,800	
	Precepts paid to:			
39,108	Hampshire County Council	41,539		
5,129	Hampshire Police Authority	5,449		
2,304	Hampshire Fire and Rescue	2,438		
1,729	Parish and Town Councils	1,800		
8	Payments made to the Capital Receipts Pool	-		
			51,226	
139,785	Sub total			147,968
	Cash inflows:			
(26)	Rents (after rebates)		(19)	
(50,501)	Council Tax receipts		(53,821)	
(1)	Community Charge receipts		-	
(41,688)	NNDR receipts		(45,595)	
(1,186)	Revenue Support Grant		(1,066)	
(17,927)	DWP grants for benefits		(20,783)	
(12,075)	Other government grants		(13,198)	
(14,665)	Cash received for goods and services		(14,688)	
(199)	Other operating cash receipts		(82)	
(138,268)				(149,252)
1,517	Net Revenue Activities cash (inflow)/outflow			(1,284)
	Returns on Investments and Servicing of Finance			
	Cash outflows:			
82	Interest paid			12
	Cash inflows:			
(909)	Interest received			(1,017)
(827)	Net Returns on Investments and Servicing cash (inflow)/outflow			(1,005)

CASH FLOW STATEMENT (continued)

2006-07 £000	Cash flow statement continued	£000	2007-08 £000	£000
	Capital activity			
	Cash outflows:			
6,268	Purchase of fixed assets		5,174	
2,000	Purchase of long-term investments		-	
47	Other capital cash payments		4,944	
8,315			<u>4,944</u>	10,118
	Cash inflows:			
(566)	Sale of fixed assets		(12,600)	
(675)	Capital grants received		(525)	
(4,931)	Other capital cash receipts		(2,865)	
(6,172)			<u>(2,865)</u>	(15,990)
2,143	Net capital activity cash (inflow)/outflow			<u>(5,872)</u>
2,833	Net cash (inflow)/outflow before financing			(8,161)
	Management of liquid resources			
(2,743)	Net increase/(decrease) in short term deposits			7,403
	Financing			
	Cash outflows:			
12,556	Repayment of short-term loans in year			2,598
	Cash inflows:			
(13,630)	New short-term loans raised in the year			(1,506)
(984)	Net movement in cash			<u>334</u>

Reconciliations for the cash flow statement are at note 49 on page 50.

NOTES TO THE ACCOUNTS

1 Implementation of the Revaluation Reserve and Capital Adjustment Account

The Balance Sheet figures for 31 March 2007 have been adjusted from those included in the Statement of Accounts for 2007-08 to accommodate the implementation of the Revaluation Reserve. The Revaluation Reserve replaces the Fixed Asset Restatement Reserve (FARA). The credit balance of £18.5m on the FARA at 31 March 2007 has been written off to the Capital Financing Account (£42.8m credit balance) to form the Capital Adjustment Account with a credit balance of £61.3m. The Revaluation Reserve has been included in the Balance Sheet with a zero opening balance. The closing position on the Revaluation Reserve at 31 March 2008 therefore only shows revaluation gains accumulated since 1 April 2007.

2 Pensions interest cost and expected return on pensions assets

Detail of the pensions' interest charge shown in the I & E Account (£750,000 for the year 2007-08) and the expected return on pension's assets is provided in significant detail within note 35 starting on page 40.

3 Statement of the significance of the movement on the General Fund balance for the year

The Income and Expenditure Account on page 18 brings together all of the functions of the Council and summarises all of the resources that the Council has generated, consumed or set-aside in providing services during the financial year.

However, the accounting basis is currently out of line with the statutory provisions that specify the net expenditure that the Council needs to take into account when setting local taxes. In order to give a full presentation of the financial performance of the Council during the financial year and the actual spending power carried forward to future years, the outturn on the Income and Expenditure Account is reconciled to the balance established by the relevant statutory provisions.

The Statement of Movement on the General Fund Balance contained on page 19 provides the necessary reconciliation. The detail of the reconciling transactions is included within the core financial statements to enable the reader to identify the increase in the General Fund Balance for the year in the sum of £389,000.

NOTES TO THE ACCOUNTS continued

4 Trading Operations

The following trading operations are included within the body of the Income and Expenditure Account.

2006-07 £000	Trading Operations	Expenditure £000	2007-08 Income £000	Net (Profit) / Loss £000
(14)	Environment Trade Refuse	500	(536)	(36)
(1,215)	Health and Prosperity Corporation Estates	647	(1,901)	(1,254)
(55)	Open Air Markets	59	(107)	(48)
(443)	Wessex House	567	(959)	(392)
61	Transport and Streetscene Highway Maintenance and Construction	1,079	(1,035)	44
(1,666)	Total of Trading Operations	2,852	(4,538)	(1,686)

5 Section 137 expenditure

The Local Government Act 2000 granted new powers to authorities in England and Wales to promote well-being in their area. Authorities are required to disclose any expenditure incurred under s137(3) such as contributions to charities, not-for-profit organisations providing a public service in the United Kingdom and mayoral appeals which is not otherwise authorised. This expenditure amounted to £42,475 in 2007-08 (£37,785 in 2006-07).

6 Publicity expenditure

Section 5 of the Local Government Act 1986 requires Local Authorities to keep a separate account of expenditure on publicity. In accordance with the 1986 Act, there has been no expenditure on party political activities. The total expenditure on advertising and publicity is given below:

2006-07 £000	Publicity Account	2007-08 £000
31	Recruitment advertising	47
165	Promotional advertising	179
6	Other publicity	4
202	Total of all expenditure on publicity	230

NOTES TO THE ACCOUNTS continued

7 Building Control Trading Account

The Building (Local Authority Charges) Regulations 1998 require the disclosure of information regarding the setting of charges for the administration of the Building Control function. Eastleigh Borough Council sets charges for the work carried out in relation to building regulations with the aim of covering all costs incurred. However, certain activities performed by the Building Control Unit cannot be charged for, such as providing general advice and liaising with other statutory authorities. The statement below shows the total cost of operating the Building Control Unit divided between the chargeable and non-chargeable activities.

Building Regulations Charging Account	Non-Chargeable	Chargeable	Total Building Control
	2007-08 £000	2007-08 £000	2007-08 £000
Total Expenditure	59	350	409
Total Income	-	(350)	(350)
(Surplus) / Deficit for the year	59	-	59
Comparatives for the previous year	2006-07 £000	2006-07 £000	2006-07 £000
Total Expenditure	79	390	469
Total Income	-	(349)	(349)
(Surplus) / Deficit for the previous year	79	41	120

8 Agency income and expenditure

The Council currently undertakes work on an agency basis for Hampshire County Council. The expenditure reimbursed by income for the year 2007/08 was £645,329 and comparison to the previous financial year is shown in the table below

2006-07 £000	Agency income and expenditure	2007-08 £000
172	Environmental	223
6	Traffic regulation order works	8
144	Capital schemes	189
225	Administration	225
547	Expenditure reimbursed by income from Hampshire County Council	645

NOTES TO THE ACCOUNTS continued

9 Local Authority Goods and Services Act 1970

The Council is empowered by this Act to provide goods and services to other public bodies. In 2007-08 income in the sum of £88,154 was received in respect of charges to other public bodies for providing payroll services, car parking, trade refuse, highways services and dog waste bin emptying.

2006-07 £000	Local Authority Goods and Services Act 1970	2007-08 £000
75	Charge to other public bodies	88

10 Local Area Agreements (LAA)

The council is a participant in an LAA – a partnership with other public bodies involving the pooling of governments grants to finance work towards jointly agreed objectives for local public services. The original agreement and action plan was signed in February 2006 and the outcomes, indicators and targets have been updated in 2007-08. In 2007-08 the LAA has completed the 2nd year of its 3 year agreement but for Waste Performance and Efficiency Grant (WPEG) it is in its 3rd year, and 2nd year of its 3 year agreement for the Safer, Stronger Community Fund (SSCF).

The purpose of the Hampshire LAA is:

- To pilot a variety of LAA that the government called the Single Pot.
- To form an agreement between relevant Public, Private and Voluntary sector organisations capable of delivering crosscutting outcomes.
- To agree specific outcomes and targets that will be achieved each year for the 3 years of the agreement.
- To improve lives and conditions in Hampshire communities by focussing the attention of partners on 8 priority outcomes and 4 flagship initiatives drawn from the Hampshire Sustainable Community Strategy and the 11 District Sustainable Community Strategies.
- The LAA Partners are: - Hampshire County Council; 11 Hampshire District Councils; the Fire and Rescue Service; Hampshire Constabulary; The Primary Care Trust; Hampshire Strategic Partnership; District Strategic Partnerships and a range of other County wide organisation. More information can be found at <http://www3.hants.gov.uk/localareaagreement.htm>

Eastleigh Borough Council is an LAA Local authority partner that is not the accountable body. The total amount of LAA Grant received in 2007-08 is £103,356 for WPEG and £114,004 for SSCF.

NOTES TO THE ACCOUNTS continued

11 Total Member's Allowance paid in the year

A detailed analysis of the payments made to members can be found, on the Council's website, by referring to agenda item 9 of the Council's Cabinet meeting held on 15th May 2008. Information on member's allowances was also disclosed in a local newspaper in June 2008. This disclosure is made as a requirement of the Local Authorities (Member's Allowances) Regulations 2003. Payments for reimbursement of travelling and subsistence are not included in the amount disclosed. Amounts do not include employer's insurance contributions associated with these payments.

2006-07 £000	Total Member's Allowance paid in the year	2007-08 £000
292	Total member's allowance paid in the year	366

12 Number of officers whose remuneration in the year was £50,000 or more

This information is a requirement of the Accounts and Audit Regulations 2003, as amended by the Accounts and Audit Regulations 2006.

2006-07 No	Number of employees whose remuneration was in the range:	2007-08 No
10	£50,000 to £59,999	13
1	£60,000 to £69,999	2
1	£70,000 to £79,999	2
3	£80,000 to £89,999	2
-	£90,000 to £99,999	1
-	£100,000 +	1
15	Total number of officers whose remuneration exceeded £50,000	21

13 Audit Fees

Audit fees charged were £136,000 in the year. These fees are analysed in the table below.

2006-07 £000	Audit Fees	2007-08 £000
96	Work related to Code of Practice Audit	101
27	Certification of grant claims	24
6	Inspections of a statutory nature	6
-	- All other work	5
129	Total of all audit fees	136

NOTES TO THE ACCOUNTS continued

14 Leases

Vehicles and plant - the Council uses vehicles and plant financed under terms of an operating lease. The amount paid under these arrangements in 2007-08 was £95,848 (2006-07 £181,000).

Commitments under operating leases - the Council was committed at 31 March 2008 to making payments of £34,000 under operating leases, comprising the following elements:

Commitments under operating leases for vehicles and plant	£000
Leases expiring in the year 2008-09	25
Leases expiring between 2009-10 and 2012-13	9
Leases expiring after 2012-13	-

The Council holds no finance leases.

15 Intangible assets

Software licences are held in relation to information systems. The cost is written off over the five-year life of the licences once they become operational.

The table below gives an analysis of the movement in intangible assets.

Movement in intangible assets	£000
Purchase software licences	
Balance at 31 March 2007	346
Additions	33
Written off to revenue in year (amortisation)	(57)
Balance at 31 March 2008	322

NOTES TO THE ACCOUNTS continued

16 Summary of capital expenditure and fixed asset disposals

In accordance with the requirements of the SORP 2007 cumulative depreciation up until 31 March 2007 is netted off against the book value of related assets to enable all assets to be stated as "net book value" as at 31 March 2007. Hence, the cumulative depreciation stated at the base of the table on Movement on operational fixed assets below is equivalent to the depreciation for the year 2007-08.

Movement on operational fixed assets						
Operational	Other Land and Buildings £000	Vehicles Plant and Equipment £000	Infra- structure £000	Community Assets £000		Total of all operational assets £000
Net book value of assets @ 31 March 2007	33,429	4,157	1,380	7,549		46,515
Movement in 2007-08						
Additions	175	1,421	-	3,015		4,611
Transferred to operational	29	943	-	225		1,197
Transferred from other category	-	-	-	4		4
Transferred to non-operational	(252)	-	-	-		(252)
Disposals relating to book value	-	-	-	(7)		(7)
Disposals relating to revaluations	-	-	(1)	(12,300)		(12,301)
Revaluations	-	-	1	12,300		12,301
Depreciation	(503)	(1,081)	(27)	(150)		(1,761)
Net book value of assets @ 31 March 2008	32,878	5,440	1,353	10,636		50,307

NOTES TO THE ACCOUNTS continued

16 Summary of capital expenditure and fixed asset disposals continued

Movement on non-operational fixed assets			
Non-operational	Investment Properties £000	Assets under construction £000	Total of all non- operational assets £000
Net book value of assets @ 31 March 2007	21,747	1,567	23,314
Movement in 2007-08			
Additions	227	714	941
Transferred from Assets under Construction	370	-	370
Transferred to operational fixed assets	(4)	(1,567)	(1,571)
Transferred from operational fixed assets	-	252	252
Net book value of assets	22,340	966	23,306

17 Information about depreciation and amortisation methodologies

Depreciation is provided for on all assets with a determinable finite life (except for land and investment properties), by allocating the value of the asset in the balance sheet over the periods expected to benefit from their use. The Council's policy is disclosed in the table on the following page.

Grants and contributions: where grants and contributions are received that are identifiable to fixed assets with a finite useful life, the amounts are credited to the Government Grants Deferred Account. The balance is then written to the Income and Expenditure Account to offset depreciation charges made for the related assets in the relevant revenue service.

NOTES TO THE ACCOUNTS continued

17 Information about depreciation and amortisation methodologies continued

Detail of depreciation and amortisation methodologies applied to assets

Asset classification	Depreciation and amortisation methodology
Intangible	<p>Held at historic cost</p> <p>Amortised using straight line method of 20% each year (to nearest £10)</p> <p>If operational in first six months then amortised from 1 October ; second six months from 1 April of the following year</p> <p>Non-operational held as assets under construction</p> <p><i>No deminimis level set</i></p>
Buildings	<p>Held at net current value</p> <p>Depreciated at the rate of 2% per annum on reducing balance to nearest £100</p> <p>Freehold land not depreciated</p> <p><i>Deminimis level set at £5,000</i></p>
Vehicles, plant and equipment	<p>Held at historic cost</p> <p>Depreciated using straight line method over the asset life determined for that particular asset.</p> <p>Play, recreation and other equipment to the nearest £10</p> <p>Plant and vehicles to the nearest penny</p> <p><i>Deminimis level for IT hardware set at £1,000 No deminimis level set for vehicles, plant and other equipment</i></p>
Infrastructure and community	<p>Held at historic cost</p> <p>Depreciated at the rate of 2% per annum on reducing balance; to nearest £100</p> <p><i>Deminimis level set at £5,000</i></p>
Investment properties	<p>Held at market value</p> <p>Not depreciated</p>
Assets under construction	<p>Held at historic cost</p> <p>No depreciation applied whilst under construction</p>

NOTES TO THE ACCOUNTS continued

17 Information about depreciation and amortisation methodologies continued

A reconciliation between the movements on depreciation and impairment quoted in the tables on pages 31 & 30, (intangible fixed assets & operational fixed assets) related to the revenue effect for depreciation shown at page 19 is given in the table below .

Reconciliation between depreciation and impairment written against fixed assets compared to the General Fund entries made on page 19.	2007-08 £000
<u>Transactions on the balance sheet (fixed assets)</u>	
Amortisation of intangible fixed assets	(57)
Depreciation on operational fixed assets	(1,761)
Impairment on operational fixed assets	-
Total of all depreciation and impairment written against assets	(1,818)
<u>Transactions made within the statutory and non-statutory amounts debited and credited to the General Fund (page 19)</u>	
Amortisation of intangible fixed assets	(57)
Depreciation and impairment of fixed assets	(1,761)
Total charges in the revenue account for depreciation	(1,818)

18 Changes in depreciation

There have been no changes in depreciation methodology in the year 2007-08.

19 Classes of fixed assets held on the balance sheet at current value

The classes of fixed assets held on the balance sheet at current value are Other Land and Buildings.

20 Details relating to the last full asset valuation

The last full asset revaluation was undertaken on 1 April 2004 by the District Valuer South East, an office of the Valuation Office Agency. The VOA are an external body and their staff engaged on the valuation were RICS qualified (Royal Institute of Chartered Surveyors).

The bases of valuation and amounts are given in the table below.

Classification of property	Basis of valuation at 1 April 2004	Amounts £000
Non-specialised operational property	Valued to Existing Use Value (EUV)	8,022
Specialised operational property	Valued using Depreciated Replacement Cost (DRC)	16,578
Non-operational property	Valued at Market Value (MV)	21,770

NOTES TO THE ACCOUNTS continued

21 Details relating to the last full asset valuation - subsequent valuations

Subsequent valuations were made by the Valuation Office Agency for the following properties:

Property	Basis of valuation and date	Amounts £000
Wessex House	EUV 4 June 2004	4,400
Car park, Swan centre, 8h Wells Place	MV 1 April 2005	1,080
Hanns Place car park	EUV 31 March 2006	125
Public convenience, Bishopstoke	MV 1 April 2005	118

The Council is not aware of any material changes in value and therefore the valuations have not been updated in 2007-08. The date for the next full valuation is 1 April 2009.

22 Information on assets held

The Council has ownership of assets described in the table below.

Statement of Fixed Assets at 31 March 2008	
Asset Category	Quantity
Operational Assets:	
Other Land and Buildings	
● Civic Offices	1
● Hedge End Depot	1
● Eastleigh Business Centre	1
● The Point Dance & Arts Centre	1
● Fleming Park Leisure Centre	1
● Fleming Park Bowling Green	1
● Fleming Park Golf Course	1
● Car Parks	12
● Market Sites	1
● Public Conveniences	3

NOTES TO THE ACCOUNTS continued

22 Information on assets held continued

Statement of Fixed Assets at 31 March 2008 continued		
Asset Category	Quantity	Area (acres)
Operational Assets (continued):		
Vehicles, Plant & Equipment		
• Vehicles	120	
• Plant & equipment	109	
Infrastructure Assets	85	161.00
Community Assets		
• Allotments		27.68
• Cemeteries	3	
• Community Centres	7	
• Other Community facilities	17	
Parks:		
• Itchen Valley Country Park		319.44
• Lakeside		56.75
• Ecology Park		5.95
• The Lakes		14.55
• Other Parks		4.21
Leisure Facilities:		
• General leisure facilities	4	
• Public Open Spaces		178.99
• Woodland sites	16	62.00
• Recreation and playgrounds		158.63
• Grazing land		296.38
Investment Properties	35	
Assets Under Construction	7	8.75

23 Deferred charges

Deferred charges incurred during the financial year 2007-08 amounted to £4,775,000 (compared to £3,521,000 in the previous year 2006-07). These did not result in the creation of an asset and therefore have been written off to the Income and Expenditure Account in the year.

NOTES TO THE ACCOUNTS continued

24 Summary of capital expenditure and financing

2006-07 £000	Capital expenditure and financing	2007-08 £000
8,206	Opening capital financing requirement	6,350
	<u>Capital investment</u>	
29	Intangibles	33
1468	Operational assets	4,611
1813	Non-operational assets	941
3,521	Deferred charges	4,775
	<u>Sources of finance</u>	
(3,208)	Capital receipts	(6,481)
(3,043)	Government grants and other contributions	(3,532)
(40)	Earmarked reserves	(75)
(680)	Sums set aside from revenue (revenue contribution to capital outlay and minimum revenue provision)	(418)
(1,716)	Capital receipts used to reduce debt from previous financial years	-
6,350	Closing capital financing requirement	6,204
	<u>Explanation of movements in year</u>	
(1,856)	Decrease in underlying need to borrow (unsupported by Government financial assistance)	(146)
(1,856)	Decrease in capital financing requirement	(146)

25 Significant commitments under capital contracts

The Council has the following significant commitments under capital contracts at 31 March 2008.

Significant commitments under capital contracts	Contract Date	Estimated Completion date	Total contract value £000
Civic Offices Lifts	Dec 2007	April 2008	124
CCTV Upgrade to Digital Recording	Nov 2007	July 2008	47
Total significant commitments under capital contracts at 31 March 2008			171

26 Balance sheet analysis of Financial Instruments

The following notes (numbers 27 to 31) provide analysis and detail of balance sheet elements that are also included within the detailed notes on financial instruments to be found at notes 50 through to 53, starting on page 53.

27 Long-term investments

The Council has long-term investments of only £10,000. This sum relates to a debenture in respect of the Local Government Association. This debenture yields no specific interest but does provide for a discount on the standard membership fee of the Association each year. Analysis of the long-term investments is given in the following table:

NOTES TO THE ACCOUNTS continued

27 Long-term investments continued

31 03 07 £000	Long-term investments	31 03 08 £000
2,000	National Australia Bank	-
2,000	HSBC Bank	-
10	Debenture (LGA Properties)	10
4,010	Total of all long-term investments	10

28 Long-term debtors

31 03 07 £000	Long-term debtors	31 03 08 £000
147	Housing Association Loans	141
167	Mortgages	125
148	Car Loans to staff	109
59	Other	58
521	Total of all related to the General Fund	433

Long-term debtors continue to decrease each year. An element of the mortgages shown above relate to the sale of former Council houses. A deferred credit is held on the balance sheet relating to these former sales. As principal amounts are repaid by mortgagees this deferred credit is released as a usable capital receipt, or as a revenue receipt in circumstances where the principal sum paid is less than £10,000.

29 Debtors

Gross 31 March 2007 £000	Bad debt provision 31 March 2007 £000	Debtors net of provision 31 March 2007 £000	Debtors	Gross 31 March 2008 £000	Bad debt provision 31 March 2008 £000	Debtors net of provision 31 March 2008 £000
1,685	(389)	1,296	Council Tax arrears including court costs	1,583	(352)	1,231
644	(135)	509	NNDR arrears including court costs	589	(146)	443
9	(9)	-	Community Charge arrears	4	(4)	-
4	(4)	-	Community Charge court costs	2	-	2
841	(336)	505	Benefits	870	(348)	522
352	-	352	NNDR Grant	-	-	-
2,153	-	2,153	Government and Public Bodies	2,000	-	2,000
2,330	(255)	2,075	Other Debtors	1,961	(254)	1,707
380	-	380	Payments in Advance	349	-	349
8,398	(1,128)	7,270	Total of all	7,358	(1,104)	6,254

£1.832m has been reclassified into Government and Public Bodies, taken from Other Debtors as at 31st March 2007.

NOTES TO THE ACCOUNTS continued

30 Investments

The short term investments relate to temporary investments of surplus cash made in the money market. It is an efficient use of surplus cash on a short term basis. Investments are made in accordance with a strictly defined policy approved regularly by the Council's Cabinet.

31 03 07 £000	Investments	31 03 08 £000
7,000	Temporary investments	12,254
609	Money market funds	4,474
493	Business reserve accounts	3,128
8,102	Total of all investments at year end	19,856

The investments at 31 March 2008 includes accruals for principal and interest in accordance with the SORP 2007. The amounts as at 31 March 2007 do not include such accruals. Further information on investments can be found at Note 50 starting on page 53.

31 Creditors

An analysis of creditors is shown in the table below.

31 03 07 £000	Creditors	31 03 08 £000
(572)	Council Tax	(606)
(472)	NNDR	(1,193)
(1,904)	Government and Public Bodies	(1,600)
(1,798)	Other creditors	(3,199)
(201)	Deposits held	(90)
(1,042)	Payments received in advance	(1,178)
(5,989)	Total of all creditors	(7,866)

32 Provisions

Provisions relate to liabilities of uncertain timing or amount that will be incurred.

31 03 07 £000	Provisions	31 03 08 £000
(65)	Early retirement Costs	(65)
(1)	Historic buildings	-
(66)	Total provisions	(65)

NOTES TO THE ACCOUNTS continued

33 Capital contributions unapplied

The capital contributions shown on the balance sheet is entirely composed of developer's contributions, awaiting allocation to fund either capital or revenue activities. In certain limited circumstances sums may eventually be repaid to the developer.

31 03 07 £000	Capital contributions unapplied	31 03 08 £000
(8,525)	Total Capital contributions unapplied	(7,708)

34 Government grants deferred

Government grants deferred relates to the unamortised balance of assets resulting from capital expenditure funded by grants and external contributions.

31 03 07 £000	Government grants deferred	31 03 08 £000
(1,719)	Opening balance for the year	(2,504)
	Movements in the year	
(3,043)	Capital expenditure financed by government grants and contributions	(3,532)
2,195	Deferred charges written off	2,206
63	Depreciation	122
(2,504)	Total government grants deferred	(3,708)

35 Defined benefits pensions

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

In accordance with Financial Reporting Standard No 17 (FRS17) – Retirement Benefits disclosure of certain information concerning assets, liabilities, income and expenditure related to pension schemes is required.

The latest actuarial valuation of the Hampshire County Council Pension Fund took place on 31 March 2007. The principal assumptions used by the independent qualified actuaries in updating the latest valuations of the Fund for FRS17 purposes were as shown below.

Main financial assumptions	@ 31 March 2007	@ 31 March 2008
	%	%
Inflation	3.2	3.7
Rate of general long-term increase in salaries	4.7	5.2
Rate of increase to pensions in payment	3.2	3.7
Rate of increase to deferred pensions	3.2	3.7
Discount rate	5.3	6.8

NOTES TO THE ACCOUNTS continued

35 Defined benefits pensions continued

Scheme member's benefit improvements made for 1 April 2008 affect the active member liabilities for the Fund as a whole at 31 March 2008. The changes in the 2008 scheme that affect the active member's benefits earned before 1 April 2008 are:

- An increase in the period of the pension guarantee following retirement from 5 to 10 years
- The introduction of contingent dependant's benefits for co-habitees
- An increase in the lump sum on death in deferment benefits following the member leaving service from three times to five times the deferred pension
- A change to service enhancements for ill-health and death in service pensions

The above changes affect the active member liabilities of the Fund by 1.6% as a whole.

The market value of the assets of Hampshire County Council Pension Fund at 29 February 2008 was £2,934.4M. The assets as at 31 March 2008 have been estimated using Index returns. Further detail is shown below.

	Long-term rate of return expected at 31 March 2007 % p.a.	Estimated value at 31 March 2007 £m	Long-term rate of return expected at 31 March 2008 % p.a.	Value at 31 March 2008 £m
Equities	7.7	1,940.2	7.6	1,807.6
Property	6.7	130.9	6.6	168.0
Government bonds	4.7	597.2	4.6	775.6
Corporate bonds	5.3	77.0	6.8	0.0
Other	5.6	140.2	6.0	167.0
Total	6.9	2,885.5	6.7	2,918.2
Funding Position			@ 31 March 2007	@ 31 March 2008
			£m	£m
Share of assets			49.80	50.25
Estimated funded liabilities			(76.27)	(68.58)
Estimated unfunded liabilities			(1.56)	(1.44)
Surplus/(Deficit)			(28.03)	(19.77)
Analysis of amount charged to Net Services Cost			@ 31 March 2007	@ 31 March 2008
			£m	£m
Current service cost			2.25	2.27
Past service cost			0.01	0.73
Curtailments/settlements			0.00	0.00
Total charged to net services cost			2.26	3.00
Analysis of amount credited to other finance income			@ 31 March 2007	@ 31 March 2008
			£m	£m
Expected return on pension scheme assets			3.01	3.38
Interest on pension scheme liabilities			(3.64)	(4.13)
Net return			(0.63)	(0.75)

NOTES TO THE ACCOUNTS continued

35 Defined benefits pensions continued

Analysis of amount recognised in Statement of Total Movement in Reserves	@ 31 March 2007	@ 31 March 2008
	£m	£m
Actual return less expected return on pension scheme assets	(0.07)	(2.79)
Gains and losses arising on the scheme liabilities	(0.16)	(0.24)
Changes in assumptions underlying the present value of the scheme liabilities	0.45	12.92
Total actuarial gain (loss)	<u>0.22</u>	<u>9.89</u>

Analysis of movement in surplus during the year	@ 31 March 2007	@ 31 March 2008
	£m	£m
Surplus / (Deficit) in scheme at the beginning of the year	(27.25)	(28.03)
Current service cost	(2.25)	(2.27)
Past service cost	(0.01)	(0.73)
Contributions	1.89	2.12
Other finance income	(0.63)	(0.75)
Actuarial gain/(loss)	0.22	9.89
Surplus / (Deficit) in scheme at the beginning of the year	<u>(28.03)</u>	<u>(19.77)</u>

All amounts are stated in strict accounting polarity

The actuarial gain or loss for the last 5 years	31 03 04	31 03 05	31 03 06	31 03 07	31 03 08
<u>Difference between expected and actual return on scheme assets</u>					
Amount (£ m)	3.61	1.17	6.26	(0.07)	(2.79)
Percentage of scheme assets (%)	10.4	3.1	13.4	(0.1)	(5.6)
<u>Experience gains/(losses) on scheme liabilities</u>					
Amount (£ m)	(0.05)	2.73	0.02	(0.16)	(0.24)
Percentage of scheme liabilities (%)	0.1	4.2	0.0	(0.2)	(0.3)
<u>Change in assumptions</u>					
Amount (£ m)	0.12	(12.44)	(5.25)	0.45	12.92
Percentage of scheme liabilities (%)	0.2	(19.2)	(7.1)	0.6	18.4
<u>Total amount recognised in Movement in Reserves:</u>					
Amount (£ m)	3.68	(8.54)	1.03	0.22	9.89
Percentage of scheme liabilities (%)	7.1	(13.2)	1.4	0.3	14.1

NOTES TO THE ACCOUNTS continued

35 Defined benefits pensions continued

Eastleigh Borough Council's standard contribution rate over the accounting period was 295% of members' contributions. The contribution rates certified for the Council at the 31 March 2007 valuation are as follows.

Percentage of members' contributions	%
April 2006 to March 2007 (past)	275
April 2007 to March 2008 (current)	295
April 2008 to March 2009 (future)	302
Average effect for the year >	302

Discount Rate - FRS 17 requires liabilities to be valued using the yield on a corporate bond index. The actuary has specifically applied discount rates that are based on the annualised yield on the iBoxx over 15 year AA rated corporate bond index. This represents a change in the application of indexation having previously used the 15 year AA rated non-gilt bond index for valuation purposes. The reason for the change being the growth in number of corporate bonds used in the non-gilt bond index.

The iBoxx Sterling index family is published by International Index Company (IIC) and represents the investment grade fixed-income market for Sterling-denominated bonds.

36 Revaluation Reserve

The Revaluation Reserve was created in accordance with the SORP 2007 requirements as at 1 April 2007. The purpose of this account is to reflect movements in fixed assets resulting from revaluations and disposals:

Revaluation Reserve	2007-08 £000
Opening balance for the year	-
Movements in the year:	
Revaluation of operational fixed assets	12,301
Disposals of operational fixed assets	(12,308)
Transfer to Capital Adjustment Account - Book value of assets sold	7
Closing balance	-

NOTES TO THE ACCOUNTS continued

37 Capital Adjustment Account

This account is used for the financing of capital expenditure, and for the application of minimum revenue provision and voluntary revenue provision.

Capital Adjustment Account	2007-08 £000
Opening balance for the year	61,322
<u>Movements in the year</u>	
Financing of capital expenditure related to the Council's internal resources	6,827
Deferred charges written off	(2,571)
Minimum revenue provision	146
Depreciation	(1,696)
Transfer from Revaluation Reserve - Book value of assets sold	(7)
Closing balance	64,021

38 Usable Capital Receipts Reserve

The accumulated capital receipts held in this reserve represent the proceeds from the disposal of fixed assets. The receipts are held pending their use to finance future capital expenditure.

2006-07 £000	Usable Capital Receipts Reserve	2007-08 £000
7,008	Opening balance for the year	3,500
	<u>Movements in the year</u>	
1,424	Capital receipts received in the year	13,129
(3,208)	Financing of capital expenditure earmarked from capital receipts	(6,481)
(1,716)	Amounts applied to repay Prudential Code debt	-
(8)	Amount paid to government pool	-
3,500	Closing balance	10,148

NOTES TO THE ACCOUNTS continued

39 Deferred Capital Receipts

These capital receipts represent the principal outstanding on mortgages relating to council houses previously sold by the Council.

2006-07 £000	Deferred Capital Receipts	2007-08 £000
186	Opening balance for the year	134
(52)	Mortgage repayment receipts released	(33)
134	Closing balance	101

40 General Fund Balance

The General Fund reserve is effectively held as the main resource to fund a deficit or absorb a surplus resulting from the net General Fund expenditure for each financial year.

2006-07 £000	General Fund Balance	2007-08 £000
2,271	Opening balance for the year	2,687
416	Contribution to the General Fund in the year	389
2,687	Closing balance	3,076

NOTES TO THE ACCOUNTS continued

41 Earmarked reserves

The movement of these reserves was as follows:

31 03 07 £000	Movements in earmarked reserves	31 03 08		
		£000	£000	£000
		(To)/From General Fund	Used to finance capital exp	
116	Uninsured losses	(66)	(5)	45
50	Interest equalisation	(25)	-	25
477	Local Area Committees	(82)	(37)	358
100	Leasing/Interest	(50)	-	50
53	Highways Agency Fund	-	-	53
34	On Street Parking	(6)	-	28
67	Green Energy	(3)	-	64
454	Grange Park	(4)	-	450
26	Sidings Maintenance	(1)	-	25
22	Healthy Living Network	-	-	22
25	Wessex House	-	-	25
100	Wessex House Financing	(50)	-	50
5	Quob Lane Sewer	-	-	5
4	Meals on Wheels	-	-	4
31	The Point	39	-	70
61	Biodiversity Projects	(2)	-	59
35	Recycling	69	-	104
159	HCC Agency Contract Balfour Beatty	(44)	-	115
-	- Capital financing	33	(33)	0
38	Insurance	(36)	-	2
90	Other reserves	130	-	220
1,947	Total for all earmarked reserves (exc collection fund)	(98)	(75)	1,774
97	Eastleigh Borough Council's collection fund reserve			123
2,044	Total for all earmarked reserves			1,897

The purpose of each of the reserves shown above at 31 March 2008 is given below:

Uninsured losses - For losses that are not met via the Council's main insurance provider. Use of this reserve assists to reduce the revenue impact of liabilities which otherwise could cause major distortion to the Council's General Fund Revenue Account.

Interest equalisation - Potential unexpected variations in interest rate effects borne by the Council allow for a cautious level of protection for the General Fund Revenue Account.

Local Area Committees - Delegated reserves re LAC use on future projects and initiatives.

Leasing/Interest - Variations in the revenue effect of contracted operating leases and related interest charges allow for a level of protection for the General Fund Revenue Account.

41 Earmarked reserves (descriptions of the nature of reserves) continued

Highways Agency Fund - Income received in relation to Section 38 Agreements to offset future expenditure in relation to the schemes

On Street Parking - Surplus generated from the Decriminalised Parking Services

Green Energy - Reserve for Green Energy initiatives funded by Grants from various bodies

Grange Park - Specific reserve for drainage and sewer works currently being carried out at Grange Mobile Home Park

Sidings Maintenance - Reserve for future maintenance at the Sidings industrial units

Healthy Living Network - Composed of unused income (sponsorship, sales etc,) obtained during the term of the Lottery Funded Healthy Living Network between 2002 and 2006 and will be used to sustain the services such as the Mobile Creche and the Healthy Eastleigh web site.

Wessex House - Reserve for specific capital works at Wessex House in line with the programme.

Wessex House Financing - Surplus held in reserve in case of down turn in rental income at Wessex House

Quob Lane Sewer - Future maintenance of sewer

Meals on Wheels - Reserve for major capital expenditure on the meals on wheels service, and will be used for the redecoration and refurbishment of the meals on wheels kitchen and office areas.

The Point - Reserve for future losses which could occur during the transition phase of the redevelopment of The Point

Biodiversity Projects - Specific reserve for Biodiversity projects - Wetlands projects and Damsel Fly project

Recycling - Reserve created from sale of recyclable materials and used in the Waste Management area.

HCC Agency Contract Balfour Beatty - for potential liabilities arising from the Hampshire County Council Agency Agreement and Balfour Beatty

Insurance - Specific purpose of this reserve is described on page 48

Other minor and various reserves for example Fair Trade & Street Lighting

Collection Fund - Eastleigh Borough Council's element of the statutory collection fund

NOTES TO THE ACCOUNTS continued

42 Insurance reserve

The Council operates an insurance reserve making allocations of internal insurance charges to service accounts for the provision of risk cover for equipment. The balance of the reserve was considered excessive in relation to the risks associated with internally insured items, resulting in a significant amount of the reserve being transferred to the Income and Expenditure Account in 2007-08. A brief summary of the activity for the year is given in the table below.

2006-07 £000	Insurance reserve	2007-08 £000
36	Opening balance for the year	38
	Movements in the year	
4	Charges to the General Fund services for internal risk cover related to items of equipment	-
(2)	Internal settlements	-
-	Transfer to the Income and Expenditure Account	(36)
38	Closing balance	2

43 Eastleigh Borough Council's element of the Collection Fund

The SORP 2007 states that the preferred solution is to account for the collection fund balance (a surplus at the end of the financial year 2007-08) as partly an increase in resources for the Council (increasing the net worth on the balance sheet), and stating the remaining elements of the balance as amounts payable to precepting bodies (within creditors on the Council's balance sheet).

2006-07 £000	Eastleigh Borough Council's element of the Collection Fund	2007-08 £000
725	Surplus on the collection fund at the end of the financial year as stated in the collection fund statements on page 59	914
	Less:	
(628)	Elements of the above surplus transferred to creditors at the year end for the major preceptors (Hampshire County Council, Hampshire Police Authority and Hampshire Fire & Rescue)	(791)
97	Closing balance - Eastleigh Borough Council's element of the collection fund surplus	123

NOTES TO THE ACCOUNTS continued

44 Related Parties

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

"Central government has effective control over the general operations of the council - it is responsible for providing the statutory framework within which the council operates, provides the majority of its funding in the form of grants and prescribes the terms of many of the transactions that the Council has with other parties (e.g. housing benefits). Details of transactions with government departments are set out within note 49 on page 51 relating to the Cash Flow Statement. Disclosure regarding related parties needs to be reported for the following bodies:"

Members of the Council
Officers
All other public bodies (except central government - see paragraph above)
Pension fund
Assisted organisations
Management contracts
Companies and joint ventures

One elected member of the Council declared an interest in respect of a grant paid by the Council in the sum of £1,900 to Eastleigh churches rent guarantee scheme.

During the financial year 2007-08 the Council entered into a partnership with Southampton City Council for the provision of the Building Control service, and a partnership with Gosport Borough Council for the provision of the Internal Audit service. Strategic focus and decision making remains with the Council, drawing only on the staffing resources from these other Councils to continue to provide the services defined.

45 Analysis of net assets employed

There is a requirement to disclose the net assets employed for the General Fund and Trading Operations.

31 03 07 £000	Analysis of net assets employed	31 03 08 £000
15,354	General Fund	32,663
26,303	Trading Operations	26,810
41,657	Total	59,473

46 Contingent assets

The repayment of £137,500 to the Council, due to the potential winding up of an external company who benefited from the advance payment of developer's contributions in 2006-07 is probable. The exact sum and specific date of repayment cannot be ascertained with certainty.

NOTES TO THE ACCOUNTS continued

47 Contingent liabilities

Significant contingent liabilities resulting from the housing stock transfer in March 1996 still exist. These liabilities are included in the table below:

31 03 07 £000	Contingent liabilities	31 03 08 £000
232	Capital maintenance costs	174
160	Landscape maintenance	120
96	Highway maintenance	72
488	Total contingent liabilities regarding housing stock transfer made in 1996	366
15	Hamble Jetty	15
50	Concessionary fares scheme	72
65	Total all other contingent liabilities	87
553	Total	453

48 Events after the balance sheet date

The Council received a determination from the Communities for Local Government in 2008-09 of an additional amount of £96,122 in relation to the Local Authorities Business Growth Incentive Scheme for grant in respect of the years 2005-06 and 2007-08. This income was received on 2nd July 2008 and is recognised within the Income and Expenditure Account in 2008-09.

On 4th August 2008 the Council lost a legal case related to access over the Council's land to a proposed development at Wildern Mill, Hedge End. Costs have been awarded against the Council but the exact amount cannot be known until November 2008. The Council is currently considering its position including the possibility of an appeal against the judgement.

Building structures were damaged by fire at one of the Council asset sites on 7th June 2008. These structures were fully insured and the Council does not expect to suffer any financial loss.

49 Cash Flow reconciliations

2006-07 £000	Reconciliation of the net surplus/deficit on the Income and Expenditure Account to the revenue activities net cash flow.	2007-08 £000
2,837	Income and Expenditure Account deficit for the year	4,398
	<u>Deduct items which are not cash transactions</u>	
-	Surplus arising on the disposal of fixed assets	789
(370)	FRS17	(880)
(42)	Amortisation of intangible fixed assets	(57)
(1,542)	Depreciation and impairment of fixed assets	(1,761)
2,257	Government grants deferred amortisation	2,328
(3,521)	Write downs of deferred charges to be financed from capital resources	(4,775)
	Items allocated into the Net Cost of Services	
(630)	FRS17 interest	(750)
(1,011)		(708)
2,528	Change in net current assets related to revenue activities	(576)
1,517	Balance as per the revenue activities net cash flow contained within the Cash Flow statement on page 23.	(1,284)

NOTES TO THE ACCOUNTS continued

49 Cash Flow reconciliations continued

2006-07 £000	Reconciliation of items under the Financing and Management of Liquid Resources sections to the opening and closing Balance Sheets	2007-08 £000
8,102	Closing short-term investments for the year	19,856
12,089	Opening short-term investments for the year	8,102
(3,987)	Decrease in short-term investments	11,754
1,244	Non-cash movements in short-term investments	(4,351)
(2,743)	Financing and management of liquid resources	7,403

2006-07 £000	Reconciliation of the movement in cash to the movement in net funds	2007-08 £000
(984)	Movement in cash, contained on the cash flow statement on page 24	334
	<u>Movement in short-term funds</u>	
(3,987)	Investments	11,754
(1,107)	Borrowing	1,059
	<u>Movement in long-term funds</u>	
2,000	Investments	(4,000)
2	Borrowing	4
(4,076)	Movement in net funds	9,151

NOTES TO THE ACCOUNTS continued

2006-07 £000	Total Government Grants received in cash	2007-08 £000
	Department for Communities and Local Government	
(1,186)	Revenue Support Grant	(1,066)
(5,970)	Distribution from NNDR Pool	(6,354)
(191)	Local Area Agreements	-
(39)	Homelessness Initiatives Grants	(39)
(607)	Planning Delivery Grant	(494)
(9)	Local Authority Business Growth Incentive	(196)
(37)	Defective Housing Renovations	(37)
(50)	Defective Repurchases	(50)
-	- Gypsy & Traveller Grant	(8)
-	- UK On Line Grant	(8)
(315)	Disabled Facilities Grants	(329)
(8,404)	Sub-total:	(8,581)
	Department for Environment, Food and Rural Affairs	
(11)	Air Quality	(9)
(19)	Stewardship Grant	(18)
(99)	Waste Performance Efficiency Grant	-
(3)	Waste & Resources Action Programme	-
-	- Single Payment Scheme	(5)
(152)	Contaminated Land	-
(284)	Sub-total:	(32)
	Department for Health	
-	Smoke Free	(46)
-	Sub-total:	(46)
	Department for Work and Pensions	
(692)	Housing and Council Tax Benefit Administration	(687)
(4,195)	Housing and Council Tax Benefit Subsidy	(4,648)
(17,927)	Housing Benefit Rebates	(20,783)
(46)	Anti Fraud Incentive subsidy	-
-	- Housing Benefit Discretion Rent Allowance	(10)
-	- Housing Benefit Local Housing Act	(98)
-	- Housing Benefit Management Information System	(13)
-	- Housing Benefit Employment Support Allowance	(25)
(30)	Non HRA Rent Allowances Subsidy	(43)
(22,890)	Sub-total:	(26,307)
	Department of Transport	
	Concessionary Travel	(60)
	Sub-total:	(60)
	Other Bodies	
(15)	Hampshire County Council - Eastleigh Strategic Partnership	(4)
-	- Hampshire County Council - Local Area Agreements	(217)
(22)	Eastleigh & Test Valley South Primary Care Trust	-
(6)	Forestry Commission - Stewardship grants	(2)
(62)	Other Local Authority Grants	(84)
(20)	Health & Safety Executive	(19)
(9)	Non Smoking Grant	-
(93)	Arts Council	-
-	- Energy Savings Trust	(100)
(58)	Hampshire County Council - Sale of Recyclables	(120)
(285)	Sub-total:	(546)
(31,863)	Total of all government grants received in cash	(35,572)

NOTES TO THE ACCOUNTS continued

50 Financial Instruments

The borrowings and investments disclosed in the balance sheet are made up of the following categories of financial instruments:

Borrowings and investments disclosed in the balance sheet	Long-Term 31 March 2008 £000	Short-Term 31 March 2008 £000
Financial liabilities at amortised cost	(26)	(2,004)
Loans and receivables	10	19,863

The borrowings and investments disclosed in the balance sheet relate entirely to financial instruments disclosed at amortised cost.

The gains and losses recognised in the Income and Expenditure Account and the Statement of Total Recognised Gains and Losses in relation to financial instruments are made up as follows:

31 March 2007 £000	Gains and losses recognised in the Income and Expenditure Account and the STRGL in relation to financial instruments	31 March 2008 £000
456	Financial Liabilities Interest from Financial Liabilities measured at amortised cost	300
(980)	Financial Assets Interest from Loans and receivables	(1,257)
(524)	Net (gain) for the year	(957)

There are no losses or gains on derecognition, impairment and revaluation to disclose for either of the two financial years quoted in the above table.

Financial liabilities and financial assets represented by loans and receivables are carried in the balance sheet at amortised cost. Their fair value has been assessed by calculating the present value of the cash flows that will take place over the remaining term of the instruments, using the following assumptions:

- estimated interest rates at 31 March 2008 to calculate a discount rate equal to the current rate instrument from a comparable lender
- determination of the structure and terms of a comparable instrument
- the fair value of trade and other receivables is taken to be the invoiced or billed amount

The fair values calculated are shown in the table on the next page:

NOTES TO THE ACCOUNTS continued

50 Financial Instruments continued

Loans and receivables and financial liabilities fair values	Carrying amount 31 March 2008 £000	Fair Value 31 March 2008 £000
Loans and receivables	19,873	19,815
Financial Liabilities	(2,030)	(2,030)

The fair value of loans and receivables is less than the carrying amount because the Council's portfolio of investments includes a number of fixed rate investments where the interest rate is lower than the rates available for similar investments at the balance sheet date. This guarantee to receive interest below current market rates decreases the amount the Council would have to receive if it were to make an agreement to permit early redemption.

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

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

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

51 Credit risk - Financial Instruments

Credit risk arises from deposits with banks and financial institutions, as well as credit exposures to the Council's customers. Deposits are not made with banks and financial institutions unless they are rated independently with a minimum score, together with determination of maximum duration and categorisation of investment sum. The table on the next page provides a summary of the investment strategy.

NOTES TO THE ACCOUNTS continued

51 Credit risk - Financial Instruments continued

Investments	Limit of sum invested	Maximum duration of investment
Investment in building societies (where credit rated and rating is equivalent or exceeding "A", and asset base exceeds £5billion (bn))	Limit ceiling is £3m for each Building Society	1 year
Investment in building societies (NOT credit rated) where asset base is equivalent to, or exceeds £1bn	Limit set at a total of £5m for the entire range of Building Societies in this category – limit for any one Building Society to be £2m	6 months (for any one investment taken)
Term deposits with UK based credit-rated deposit takers (excluding Building Societies), each with a rating of Fitch "A" & Individual "B/C" Support 1,2 or 3	Limit ceiling is £3m for each Institution	1 Year for Support 1 and 2 Limited to 3 months only for Support 3
UK based Money Market funds Any UK based MMF with a minimum rating of AAA could be engaged for investment	Limit ceiling is £3m for each Institution	Rolling (essentially 1 Year, but investment is continually "renewed" each working day

Customers are assessed, taking into account their financial position, past experience and other factors.

The Council also receives income from Council Tax, Business Rates and for Housing Benefit overpayments. These are statutory debts and whilst the Council endeavours to collect this income, it cannot choose who its counter-parties are in relationship to these debts. Such statutory debts are not classified as financial instruments, and for this reason no reference to statutory debts is contained within the tables on the following page.

The following analysis summarises the Council's potential maximum exposure to credit risk, based on experience of default and uncollectability over the last five financial years, adjusted to reflect current market conditions.

NOTES TO THE ACCOUNTS continued

Analysis summarising the Council's potential maximum exposure to credit risk				
	Amount @ 31 March 2008	Historical experience of default	Historical experience adjusted for market conditions @ 31 March 2008	Estimated maximum exposure to default & uncollect- ability
	£000	%	%	
	A	B	C	(A * C)
Deposits with banks and financial institutions *	19,873	-	-	-
Long-term debtors #	433	-	-	-
Court costs	98	17.9	18.1	18
Government & Public Bodies *	2,000	-	-	-
Customers	1,961	0.4	0.3	6
				24

* The Council does not expect any default in relation to these elements.

The Council does not expect any default that could ultimately result in financial loss in relation to this element

One credit limit in relation to a bank was exceeded for a duration of one day in 2007-08, in the sum of £1.6m. The exception that occurred was unavoidable owing to the particular circumstances surrounding an investment trading day. The Council does not expect any losses from non-performance by any of its counterparties in relation to deposits.

The Council does not generally allow credit for customers, such that £1.171m of the £1.961m balance is past its due date for payment. Note 29 on page 38 shows a provision of £254,000 relating to these customers. The past due amount can be analysed by age as follows:

Customer balances past their due date for payment	£000
Less than three months	938
Three to six months	25
Six months to one year	58
More than one year	150
Total	1,171

52 Liquidity risk - Financial Instruments

The Council has ready access to borrowings from the Public Works Loans Board, and there is no significant risk that it will be unable to raise finance to meet its commitments under financial instruments. The Council currently has significant investments, and should the market present unfavourable interest rates regarding borrowing there is a strategy of reducing investments to maintain liquidity. The maturity analysis of financial liabilities is given in the table below:

Maturity analysis of financial liabilities	£000
Less than three months	(9,867)
Three to six months	(2)
Six months to one year	(1)
More than one year	(26)
	(9,896)

All trade and other payables are due to be paid in less than one year. The above table does not include capital contributions of £7,708,000. The Council expects to apply this sum to revenue and capital activities in future years.

53 Market risk - Financial Instruments

Interest rate risk

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

- Borrowings at variable rate - the interest expense charged to the Income and Expenditure Account will rise
- Borrowings at fixed rate - the fair value of borrowings will fall
- Investments at variable rate - the interest income credited to the Income and Expenditure Account will rise
- Investments at fixed rate - the fair value of investments will fall. Where fixed rate investments have short maturities, the effect will be similar to that for variable rate investments, as the replacement investments will generate more income to the Income and Expenditure Account.

Borrowings are not carried at fair value, so nominal gains and losses on fixed rate borrowings would not impact on the Income and Expenditure Account or STRGL. However, changes in interest payable and receiveable on variable rate borrowings and investments will be posted to the Income and Expenditure Account and directly effect the General Fund balance £ for £. Movements in the fair value of fixed rate investments will be reflected in the STRGL.

NOTES TO THE ACCOUNTS continued

The treasury management team has an active strategy for assessing interest rate exposure that feeds into the setting of the annual budget and which is used to update the budget quarterly monitoring during the year. This allows for any adverse changes to be accommodated.

According to the above strategy, at 31 March 2007, if interest rates had been 1% higher (with all other variables held constant) the financial effect on the year 2007-08 would have been:

Effect in 2007-08 of a 1% higher interest rate	£000
Increase in interest payable on variable rate borrowings	11
Increase in interest receivable on variable rate investments	(192)
Additional interest that would have been to the benefit of the Income and Expenditure Account if interest rates had been 1% higher in the year 2007-08	(181)

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

54 Price risk and foreign exchange risk

The Council has no equity shares or shareholdings, and has no financial assets or liabilities denominated in foreign currencies, and thus has no exposure to fluctuations regarding price and foreign exchange risks.

55 Date the accounts were signed

These accounts were signed by the Corporate Director (CFO) - Nick Tustian CPFA, and approved by the Chair of Audit & Risk Management Committee - Cllr J Wright on 24th June 2008.

COLLECTION FUND

This account reflects the statutory requirement for a billing authority to maintain a separate collection fund, which shows the transactions of the billing authority in relation to non-domestic rates and the council tax. It also illustrates the way in which these have been distributed to preceptors and the General Fund.

2006-07		Collection Fund	2007-08	
£000	£000	INCOME	£000	£000
50,088		Income from Council Tax	52,865	
4,229		Transfers from General Fund: Council Tax Benefits	4,369	
40,980		Income collectable from business rate payers	43,195	
-		Contributions Adjustment of previous year's community charges	-	
	<u>95,297</u>	Total Income		<u>100,429</u>
		EXPENDITURE		
	53,802	Precepts and demands from County and District		56,990
40,779		Business rate: Payment to national pool	42,886	
157		Costs of collection	154	
	<u>40,936</u>			<u>43,040</u>
		Bad and doubtful debts Increase in provisions		
43		Business rate payers	151	
56		Council tax	59	
	99			210
	<u>94,837</u>	Total Expenditure		<u>100,240</u>
		MOVEMENT ON FUND BALANCE		
	460	Surplus for year		189
	265	Balance brought forward		725
	<u>725</u>	Balance carried forward		<u>914</u>

NOTES TO THE COLLECTION FUND

Note 1 - Rateable values used for Business ratepayers

2006-07	2007-08
111,153,484 Total rateable value as at 31 March	109,799,884
43.3p National Non-Domestic Rate for the year	44.4p
42.6p Small business rate relief	44.1p

Note 2 - Council Tax Base for 2007-08 by banding

Band	Value Range	No. of dwellings	Ratio to Band D	Band D equivalents
A-	Band A with disabled reduction	4.75	5/9	2.60
A	Up to £40,000	3,396.50	6/9	2264.30
B	£40,001 to £52,000	8,213.25	7/9	6388.10
C	£52,001 to £68,000	14,951.50	8/9	13290.20
D	£68,001 to £88,000	8,399.00	9/9	8399.00
E	£88,001 to £120,000	6,419.00	11/9	7845.40
F	£120,001 to £160,000	2,660.75	13/9	3843.30
G	£160,001 to £320,000	917.25	15/9	1528.80
H	Over £320,000	17.00	18/9	34.00
Summary of band D equivalents				43595.70
Band D equivalent of reduction in discount on second homes				71.60
Reduction for non collection				(655.01)
Local Tax Base				43,012.29

NOTES TO THE COLLECTION FUND continued

Note 3 - Collection Fund Precepts

2006-07 £000		2007-08 £000	£000
38,818	Precept from Hampshire County Council	41,103	
290	Surplus contributable to Hampshire CC	436	
39,108			41,539
5,091	Precept from Hampshire Police Authority	5,392	
38	Surplus contributable to Hampshire Police Authority	57	
5,129			5,449
2,287	Precept from Hampshire Fire and Rescue	2,412	
17	Surplus contributable to Hampshire Fire and Rescue	26	
2,304			2,438
5,412	Precepts and demands from Eastleigh Borough Council	5,614	
55	Surplus contributable to Eastleigh Borough Council	82	
5,467			5,696

2006-07 £000	Precepts and demands from Parish and Town Councils	2007-08 £000	£000
65	Bishopstoke	68	
168	Botley	168	
83	Bursledon	83	
246	Fair Oak and Horton Heath	274	
159	Hamble Le Rice	153	
558	Hedge End	571	
245	Hound	254	
270	West End	297	
1,794			1,868
53,802	TOTAL		56,990

Scope of Responsibility

1. Eastleigh Borough Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. Eastleigh 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.
2. In discharging this overall responsibility, Eastleigh Borough Council is responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions, and which includes arrangements for the management of risk.
3. Eastleigh Borough Council has completed the Corporate Governance Compliance Checklist which is consistent with the principles of the CIPFA/SOLACE Framework *Delivering Good Governance in Local Government*. A copy is available on the Council's website.
4. This statement explains how Eastleigh Borough Council the requirements of regulation 4(2) of the Accounts and Audit Regulations 2003 as amended by the Accounts and Audit (Amendment) (England) Regulations 2006 in relation to the publication of an annual governance statement.

The Purpose of the Governance Framework

5. The governance framework comprises the systems and processes, and culture and values, by which the authority is directed and controlled and its activities through which it accounts to, engages with and leads the community. It enables the authority to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost-effective services.
6. The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of Eastleigh Borough Council's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.
7. The governance framework has been in place at Eastleigh Borough Council for the year ended 31 March 2008 and up to the date of the approval of the 2007/2008 Statement of Accounts.

The Governance Framework

8. Our governance framework derives from six core principles identified in a 2004 publication entitled *The Good Governance Standard for Public Services*. This was produced by the Independent Commission on Good Governance in Public Services - a commission set up by the Chartered Institute of Public Finance and Accountancy (CIPFA), and the Office of Public Management. The Commission utilised work done by, amongst others, Cadbury (1992), Nolan (1995) and CIPFA/SOLACE (2001). These principles were adapted for application to local authorities and published by CIPFA in 2007. The six core principles are:
 - 8.1 focusing on the purpose of the authority and on outcomes for the community and creating and implementing a vision for the local area;
 - 8.2 members and officers working together to achieve a common purpose with clearly defined functions and roles;
 - 8.3 promoting values for the authority and demonstrating the values of good governance through upholding high standards of conduct and behaviour;
 - 8.4 taking informed and transparent decisions which are subject to effective scrutiny and managing risk;
 - 8.5 developing the capacity and capability of members and officers to be effective; and
 - 8.6 engaging with local people and other stakeholders to ensure robust public accountability.
9. The Council is undertaking the following in respect of these core principles:
 - 9.1 *Focusing on the purpose of the authority and on outcomes for the community and creating and implementing a vision for the local area*
 - 9.1.1 The Eastleigh Community Plan was developed by Eastleigh Strategic Partnership and is made up of a number of elements:
 - 9.1.1.1 A set of underpinning principles
 - 9.1.1.2 A long term vision for the Borough
 - 9.1.1.3 Eight themes which, in consultation with residents, were identified as important priorities for the Borough
 - 9.1.1.4 A set of theme-based aims and associated short term actions.

- 9.1.8 The Council has a Performance Management Framework utilising a dedicated IT system (QPR) to record and report upon performance management information. The system is driven by the Corporate Strategy which focuses attention on Council ambitions and priorities. This is cascaded through Unit Business Plans, individual employee appraisals and action plans.
- 9.1.9 The Cabinet and Scrutiny Panels monitor and scrutinise progress against targets and performance in priority areas affecting relevant service areas, and consider and approve corrective action where necessary, on a quarterly basis. This reporting is undertaken using a traffic light system so as to make interpreting of the results easier.
- 9.1.10 The reporting process is under constant review in order to develop its maximum potential, and we are exploring ways in which the financial information can be more closely linked to the service performance information.
- 9.1.11 The Council maintains an objective and professional relationship with external auditors and statutory inspectors, as evidenced by the Annual Audit Letter.
- 9.1.12 Through reviews by external auditors, external agencies, Internal Audit, and internal review teams, the Council constantly seeks ways of ensuring the economical, effective and efficient use of resources, and for securing continuous improvement in the way in which its functions are exercised.
- 9.1.13 The Council's Corporate Procurement Strategy, approved by Cabinet in October 2006, provides a consistent strategic framework within which to undertake and continuously develop procurement to deliver the Council's corporate objectives, to improve performance and deliver efficiencies. The Strategy encompasses the policy objectives of the National Procurement Strategy and adapts and prioritises them to meet the Council's local context. The Strategy recognises that the Council cannot achieve its objectives alone and emphasises the need to work in collaboration with public, private, social enterprise and voluntary sector partners. A core theme throughout the Strategy is the Council's commitment to social, economic and environmental sustainability. This is a priority throughout the whole procurement life cycle.
- 9.1.14 The Council reviewed its financial procedural rules in February 2007.

- 9.1.15 Risk Management is monitored by the Strategic Risk Management Group, which meets approximately every six weeks. The Group reviews risk arrangements and now advises the new Audit and Risk Management Committee on risk issues within the Council and on existing and planned risk controls. (Following a review of its scrutiny arrangements the Council has established a new Audit and Risk Management Committee. This will ensure that even greater emphasis is given to embedding sound and effective risk management processes in the Council's service delivery and corporate governance arrangements).
- 9.1.16 Risks are reported by use of risk registers (also known as risk matrices). Each unit is required to update its own register on a quarterly basis as part of the performance management process. In addition, a corporate register exists to record high level risks which affect the work of several units or even the whole Council.
- 9.1.17 A Risk Management Guide will be published shortly. Also, an updated risk management policy will be published as soon as it has been approved by the Audit and Risk Management Committee.

9.2 *Members and Officers working together to achieve a common purpose with clearly defined functions*

- 9.2.1 The Council has adopted a Constitution which sets out how the Council operates, how decisions are made and the procedures which are followed to ensure these are efficient, transparent and accountable to local people. The Constitution reflects the "Leader and Cabinet" model following the Local Government Act 2000.
- 9.2.2 The main decision-making committee is the Cabinet, which is responsible for all executive matters as defined by law and operates within the budget and policy framework approved annually by Council. Meetings are open to the public except where personal or confidential matters are being discussed. In addition, senior and other officers of the Council can make decisions under delegated authority - again the extent of these delegations is set out in the Constitution. The Council publishes a forward plan which contains details of key decisions to be made by the Cabinet and, occasionally, other committees. Each Cabinet member has a specific portfolio of responsibilities requiring them to work closely with senior and other employees so as to achieve the Council's ambitions. The Council has not adopted individual decision-making powers for the portfolio holders, with a couple of exceptions as detailed in the Constitution.

- 9.2.3 The Council's Management Team (MT) meets on a regular basis to develop policy issues commensurate with the Council's aims, objectives, and priorities. MT also considers other internal control issues, including risk management, performance management, compliances, efficiency and value for money, and financial management. MT meets with Cabinet members on a monthly basis ("Management Liaison") to review progress in achieving the Council's ambitions, priorities for action, performance management and forward planning for major issues.
- 9.2.4 The Council's Unit Heads receive a briefing from a member of MT every Monday morning on key issues happening in and around the Council. Additionally, there is a more interactive monthly "Senior Liaison" meeting where two or three significant topics of current concern to the Council can be explored in more depth and shared approaches agreed. The nature of Senior Liaison means that every Unit gets involved in corporate and strategic issues, and has ownership of what is decided.
- 9.2.5 In addition there are specific groups established to progress issues on a corporate basis, examples being:

GROUP	PRINCIPAL OBJECTIVES
Civic Offices Travel Plan Working Group	<ul style="list-style-type: none"> ❖ To reduce the carbon footprint of staff commuting to the Civic Offices ❖ To reduce the carbon footprint of employees travelling during the course of work ❖ To improve the air quality of Eastleigh in accordance with the Eastleigh AQMA (Air Quality Management Area) ❖ To improve car park management on the Fleming Park Campus ❖ To contribute to reducing congestion on the local road network ❖ To promote the Council's sustainability and planning commitment by "practising what it preaches"

GROUP	PRINCIPAL OBJECTIVES
E-Gov Board	<ul style="list-style-type: none"> ❖ To promote and oversee e-government initiatives throughout the Council ❖ To ensure that new/proposed IT projects and schemes are compatible with existing systems, risk-assessed and workable
Equalities Working	<ul style="list-style-type: none"> ❖ Development of policies, practices and procedures in relation to: <ul style="list-style-type: none"> ❖ Service planning and delivery ❖ Employment issues ❖ Ensuring effective communication ❖ Development and monitoring of service equality action plans
Procurement	<ul style="list-style-type: none"> ❖ Review, implement and monitor the Council's procurement rules and procedures ❖ Agree variations to Contract Standing Orders ❖ Oversee: <ul style="list-style-type: none"> ❖ The introduction of e-procurement ❖ The procurement strategy ❖ The contracts register ❖ The procurement guidance ❖ Advise on procurement matters and support the procurement process generally
Strategic Risk Management Group	<ul style="list-style-type: none"> ❖ To raise the level of management awareness and accountability for the service risks identified by the Group ❖ To develop risk management as part of the culture of the Council ❖ To provide a mechanism for risk management issues to be discussed and disseminated to all areas of the Council ❖ To prioritise and accelerate the risk management strategy recommendations which are critical to the achievement of corporate objectives

GROUP	PRINCIPAL OBJECTIVES
	❖ To advise the Resources Scrutiny Panel on risk issues within the Council and on existing and planned risk controls

9.2.6 The Council has also adopted a number of codes and protocols that will govern both member and officer activities. These are:

- 9.2.6.1 Members Code of Conduct
- 9.2.6.2 Officers Code of Conduct
- 9.2.6.3 Code of Conduct for Members and Officers regarding planning matters
- 9.2.6.4 Members' Declarations of Interest
- 9.2.6.5 Member/Officer relations
- 9.2.6.6 Gifts and hospitality

9.3 Promoting values for the authority and demonstrating the values of good governance through upholding high standards of conduct and behaviour

9.3.1 The Council has designated the Head of Legal and Democratic Services as the Monitoring Officer. It is the function of the Monitoring Officer to ensure compliance with established policies, procedures, laws and regulations. After consulting the Chief Executive he will report to the Council if he considers that any proposal, decision or omission would give rise to unlawfulness or maladministration. Such a report will have the effect of stopping the proposal or decision implemented until the report has been considered. All Council services are delivered by trained and experienced people. All posts have a detailed Role Profile and Person Specification. Training needs are identified on an on-going basis (eg weekly 1:1 meetings) and also through the Annual Appraisal and Personal Development Scheme.

9.3.2 The Council achieved re-accreditation under the Investors in People Standard, which is a quality framework to ensure that the Council's employees have the right knowledge, skills and motivation to work effectively.

9.3.3 The Development Control Unit has achieved accreditation under the Charter Mark standard, which is the Government's national standard for excellence in customer service. The Council, led by its Sustainability Team, has been awarded Beacon Council status in 2008 for "Tackling Climate Change".

- 9.3.4 The financial management of the Authority is conducted in accordance with the financial rules set out in Parts 2 and 4 of the Constitution and with Financial Regulations. The Council has designated the Corporate Director as Chief Finance Officer in accordance with Section 151 of the Local Government Act 1972. The Council has in place a four-year Financial Strategy, updated annually, to support the medium-term aims of the Corporate Strategy.
- 9.3.5 The Council maintains an Internal Audit section, which operates to the standards set out in the "Code of Practice for Internal Audit in Local Government in the UK". This section is now being operated under a partnership arrangement with Gosport Borough Council.
- 9.3.6 Individual Units have produced Business Plans, which currently cover the time period 2007/10. These Plans are updated each year so as to incorporate the Corporate Strategy requirements into service activities, so that services know what they are required to do to achieve the Council's priorities and ambitions. These plans also identify any governance impact.
- 9.4 *Taking informed and transparent decisions which are subject to effective scrutiny and managing risk*
- 9.4.1 The Council has several committees which carry out regulatory or scrutiny functions. Following a review of scrutiny in 2007/08 these are (from May 2008):
- 9.4.1.1 five Local Area Committees to determine planning applications and related matters and to take all other decisions at a local level whenever this can be done (eg, traffic schemes, community initiatives, youth issues);
- 9.4.1.2 a Standards Committee which promotes, monitors and enforces probity and high ethical standards amongst the Council's Members, and this extends to having the same responsibility for all town and parish councils with the Borough;
- 9.4.1.3 an Audit and Risk Management Committee to provide assurance about the adequacy of internal controls, financial accounting and reporting arrangements, and that effective risk management is in place. Its work is intended to enhance public trust in the corporate and financial governance of the Council;

9.4.1.4 a Licensing Committee, which monitors and reviews the effectiveness of the Council's licensing policy and procedures;

9.4.1.5 four scrutiny panels, aligned with the Council's Strategic Priorities and Cabinet portfolios, which review and/or scrutinise decisions made or actions taken in connection with the discharge of any of the Council's functions. These are:

9.4.1.5.1 Prosperity

9.4.1.5.2 Resources

9.4.1.5.3 Environment

9.4.1.5.4 Community Wellbeing

9.5 *Developing the capacity and capability of members and officers to be effective*

9.5.1 The Council has a Member Development Group comprising of Members and Officers. The Group drives Member training and development as a whole as well as developing related initiatives and projects. Since 2007/08, we have offered timetabled monthly training sessions covering a wide range of subjects from skills development (eg charring skills, time and case management, personal safety and public speaking) to need-to-know subjects (eg development control, finance and Code of Conduct). We have also sponsored two Members to undertake the new Postgraduate Certificate in Local Governance being offered by South Bank University and South East Employers.

9.5.2 As part of their allowance members receive an amount for training which is only released once the required number of training courses have been attended.

9.5.3 The Council is procuring an electronic document and records management system in 2008. This will enable it to better locate and manage its stored information and data, plus other knowledge material. This is as part of coherent, co-ordinated knowledge and information management strategy designed to enhance the value and usefulness of the corporate resource that information, data and knowledge represents.

9.6 *Engaging with local people and other stakeholders to ensure robust public accountability*

9.6.1 The Council actively encourages public participation at all its meetings with a 15 minute "open" session at the start, so that issues of concern that fall within the remit of that meeting can be aired. There is then the opportunity for the public to ask questions, give support to or raise concern on specific agenda items as they are dealt with.

- 9.6.2 The very nature of the Local Area Committee structure means that the Council can take decisions at a local level. The meetings are held out in the areas they cover and public attendance is usually much higher than if such meetings were all held in the Civic Offices.
- 9.6.3 Much of the work the Council undertakes is done with public consultation at a level appropriate to the situation. For example, the Council will be undertaking a community governance review later in 2008 to ask residents in the unparished area of our Borough whether they want a Parish Council. Similar public consultation was undertaken last year when we reviewed our polling places and districts.
- 9.6.4 The Council produces a number of very popular publications that help and assist residents. These include the pocket-sized A-Z of Council Services and the Street Guide. Residents can also receive SMS text alerts to advise them on Council initiatives and local activities. Our Council website is updated regularly and contains a wealth of information on the Council and work in which it is involved.

Review of Effectiveness

10. The Council has responsibility for conducting, at least annually, a review of the effectiveness its governance framework including the system of internal control.
11. As a result of this review, our new timetable for preparing future Annual Governance Statements (AGS) are as follows:
- | | |
|---------|---|
| January | Update and complete Governance checklist |
| March | Production of a draft AGS, and circulation of comments by senior managers, following the circulation and completion of the Corporate Governance Compliance Checklist. |
| May | Consideration of, and input into, draft AGS by Management Team |
| June | Consideration and approval by the Audit and Risk Management Committee of the draft AGS |
12. The next paragraphs give more detail regarding the actual review process, and actions undertaken during 2007/08.
13. The review of effectiveness is informed by the work of the managers within the Council who have responsibility for development and maintenance of the governance environment, the Chief Internal Auditor's annual report and also by comments made by the external auditors and other review agencies and inspectorates.

14. The process that has been applied in maintaining and reviewing the effectiveness of the governance framework includes:
 - 14.1 The Head of Legal and Democratic Services (the "Monitoring Officer") has a duty to monitor and review the operation of the Constitution to ensure its aims and principles are given full effect. The Council reviews the Constitution regularly to incorporate any necessary changes. Various amendments were either approved under delegated powers or put forward for approval by Council.
 - 14.2 The Council has four scrutiny panels. They can establish sub-groups, which can look at particular issues in depth, taking evidence from internal and external sources, before making recommendations to the Cabinet. Members can "call-in" a decision (also known as a "Minority Order") which has been made but not yet implemented, to enable it to consider whether the decision is appropriate. This is set out in detail in Paragraphs 23.2 to 23.6 of Part 4 of the Constitution.
 - 14.3 In June 2007 the Standards Committee considered the revised Members' Code of conduct and recommended its adoption in its model form (this was approved by Council in July 2007), together with arrangements for training Members in its requirements. We offered five sessions on this, and opened this up to Parish and Town Councillors as well. In 2008 we will be running "refresher" sessions.
 - 14.4 Internal Audit is responsible for monitoring the quality and effectiveness of systems of internal control. A risk model is used to formulate a three-year plan, and from which the annual workload is identified. The reporting process for Internal Audit requires a report of each audit to be submitted to the relevant service manager and/or chief officer. The report includes recommendations for improvements that are included within an action plan (and regarded as high, medium or low priority) and requires agreement or rejection by service managers and/or chief officers. The process includes follow-up reviews of recommendations to ensure that they are acted upon, usually within six months.
 - 14.5 Up until the appointment of committees for 2008/09, when a new Audit and Risk Management Committee was appointed, the Resources Scrutiny Panel acted as the Council's Audit Committee.
15. In March 2007, Members were advised by the Council's external auditors, PricewaterhouseCoopers (PWC), that the Use of Resources Assessment had identified that the Council's asset management programme and efficiency programme required a detailed review.
16. In June 2007, the Audit Commission presented the 2006/07 Audit and Inspection Letter, including the Direction of Travel Statement. PWC presented the 2006/07 Interim Audit Report and the 2007/08 Audit Plan to Members.

17. The purpose of the Audit and Inspection Letter was to provide an overall summary of the Audit Commission's assessment of the Council. It included the review of how well the Council had progressed (the Direction of Travel Statement) and the auditor's assessment of how well the Council had managed its finances (the Use of Resources scores) and drew on the findings and conclusions from the audit of the Council. The main messages for the Council included:
 - 17.1 Overall the Council was providing good quality services, with strong and improving performance on planning, affordable housing, recycling, street cleanliness, while speed of decisions on benefit claims remained above average;
 - 17.2 The Council had shown improvement in a substantial proportion of its performance indicators. Of those which had not improved, many were in already in high performing areas, but a few were not;
 - 17.3 The auditors had provided an unqualified opinion on the Council's accounts and conclusion that value for money (VFM) arrangements were adequate;
 - 17.4 The Council needed to address necessary improvements in accommodating homeless people and continue to drive up performance on administering housing benefits;
 - 17.5 The Council also needed to improve the Council's framework and tools for ensuring equality of access to services for all and ensure that these were applied.
18. The Council's performance was judged against a basket of performance indicators selected by the Audit Commission to represent a cross section of services. Fifty-six per cent of indicators were above average.
19. The Council's financial management arrangements had improved and the use of resources score had gone up to reflect this. For 2006/07, PWC were required to review the Council's management arrangements to secure good data quality. The Council achieved an overall assessment of level two, which indicated that the Council's arrangements were adequate but there were a number of areas which could be improved. Recommendations had been made to support these proposed improvements and an Action Plan had been put in place.
20. With regards to the 2006/07 Interim Audit Report, good progress had been made in implementing the recommendations from the 2005/06 Interim Report and final audit work. There remained scope to enhance control account reconciliations and improve documentary evidence to support quarterly revenue and capital monitoring reports. PWC were pleased with the work of Internal Audit and had raised one area of best practice for the future. It was noted that significant attention needed to be paid to the Council's IT arrangements, and as a result of the issues identified, PWC needed to increase the work planned for the final audit from that proposed in the audit plan.

21. The 2007/08 Audit and Inspection Plan outlined PWC's audit approach for 2007/08, including the 2007/08 final accounts which would be undertaken in summer 2008.
22. The Panel approved the 2007/08 Audit and Inspection Plan.
23. In September 2007, the Panel considered the Council's response to the issues raised by the Audit Commission in the Annual Audit and Inspection Letter.
24. As part of the previous year's (2005/06) Audit Inspection Letter, the Audit Commission specifically identified four issues that the Council needed to make further progress on, as follows:
 - 24.1 address improvements in accommodating homeless people;
 - 24.2 continue to drive up performance on administering housing benefits, in particular:
 - 24.2.1 accuracy; and
 - 24.2.2 overpayments; and
 - 24.3 improve the Council's framework and tools for ensuring equality of access to services for all and ensure these are applied.
25. The Council's action plan set out the actions to be taken and gave target dates for completion.
26. Members felt reassured that the issues raised were being addressed by the Council. With reference to the proposal to reach Level 3 of the Equality Standard, it was suggested that alongside any staff training, Member training would be useful.
27. In December 2007, the Panel considered an update on the options available for the future delivery of the Internal Audit Service, together with the progress made to date on the consideration of a partnership arrangement with Gosport Borough Council. Members had been previously informed of the resource issues facing the Internal Audit Section and the impact on the Audit Plan for the current year and the beginning of the next. Management Team and the Chief Internal Auditor were directed to continue investigating all of the options available for the effective and sustainable long-term operation of the service together with options for the future delivery of the service.
28. The options for the future delivery of the service needed firstly to be assessed against the criteria set by the Panel, namely, they be effective and sustainable. A third criterion, added to comply with the Council's budget strategy, stating the options must also be affordable. In assessing available resources against the criteria, three resource categories were identified – retain in-house; use of a private sector company; and partnership arrangement with another Council. Each of these categories met the criteria to a varying degree. None provided an absolute solution on their own and an effective mix was seen as the way forward for the future.

29. The Panel noted that Gosport Borough Council had welcomed the proposals for joint working and 200 days audit time had been offered over the next three years. PWC raised no objection to the proposals. Following consultation with UNISON, and a positive recommendation from the Panel, the Cabinet agreed that the development of a partnership arrangement with Gosport Borough Council from 1 April 2008 be progressed.
30. With regards to the Strategic Audit Plan, Members noted that a comprehensive Needs Assessment had been undertaken as part of the planning process, identifying all auditable areas within the Council's activities. In accordance with the agreed methodology, a risk index was in place that assessed the risks posed by each audit area on the basis of Impact and Likelihood. This index applied a score for each audit area against set criteria that was then translated into a risk factor.
31. The Panel received also received Internal Audit monitoring reports on a quarterly basis throughout 2007/08, and this will now transfer across to the new Audit and Risk Management Committee.
32. In March 2008, the Panel considered the performance of Internal Audit for the period 1 April to 31 December 2007; this was the third monitoring statement for the period. All major audits would be completed by the end of March 2008 in preparation for the interim audit by the Council's external auditors. Members were made aware of significant issues that arose from the reviews that included:
 - 32.1 Cash & Banking Arrangements
 - 32.2 Bank Reconciliation
 - 32.3 Sundry Debtors
 - 32.4 Procurement
 - 32.5 Council Tax
 - 32.6 NNDR
 - 32.7 Housing Benefits
 - 32.8 Payroll
33. Unit reviews and computer-based assignments had been undertaken in accordance with the risk index previously agreed with Members and the Council's external auditors. The latest release of data under the National Fraud Initiative had been delayed pending discussion between the Ministry of Justice, Electoral Registration Officers and the Audit Commission on the right of access by the Audit Commission.
34. Members were advised that the Council had introduced a self-assessment in order to comply with the mandatory Payment Card Industry (PCI) Security Standard. Improvements had been made around the transmission of sensitive data following a review of current transmission arrangements. This would be an ongoing process that would be governed by the latest technology and the Head of Customer Service and ICT would update the internet and email policy to include the latest arrangements.

35. We have been advised on the implications of the result of the review of the effectiveness of the governance framework by the new Audit and Risk Management Committee and a plan to address weaknesses and ensure continuous improvement of the system is in place.

Governance Issues

36. The following governance issues were identified during 2007/08 as a result of the review of arrangements and by the work of external and internal audit.

NO	ISSUE	ACTION/PROGRESS TO DATE
	Monitoring of critical event logs.	Key events to be identified and independently reviewed.
	Network penetration testing.	Planned and will take place after the network upgrade.
	The electronic and internet policy to be reviewed.	Planned to be reviewed by the ICT Security Group in 08/09.
	Ensure effective monitoring of IT systems.	Monitoring has been introduced and is taken to the ICT Group (chaired by Corporate Director) quarterly.
	A Disaster Recovery Plan to be implemented and tested on a regular basis.	The plan is on schedule and will be tested annually.
	Continued embedding of risk management through: <ul style="list-style-type: none"> ❖ Improved risk identification and subsequent mitigation. ❖ Improved risk registers that feed into the corporate risk register with action to reduce/mitigate risk. ❖ Comments from audit reviews fed back into the relevant risk register. 	Progress to be monitored and reviewed by the Strategic risk management group
	Robust notification and management of staff movements (starters/leavers) in order to properly manage the access to our information network.	HR to establish a robust system to notify ICT of all starters and leavers.
	There were issues highlighted by both internal and external audit around the monthly preparation and	Resources have been assigned to perform independent monthly reconciliations on a timely basis.

NO	ISSUE	ACTION/PROGRESS TO DATE
	reviewing of the Council's key control account reconciliations.	

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

Signed:

Councillor Keith House
Leader of the Council

Bernie Topham
Chief Executive

Date: 30 June 2008

Date: 30 June 2008

Signatures – document has been signed in June 2008 ... Copy of the signatures can be made available by contacting Eastleigh Borough Council, Financial Services Unit, Corporate Accountancy – 023 8068 8005
corporate.accountancy@eastleigh.gov.uk

Independent Auditors' Report to the members of Eastleigh Borough Council

We have audited the financial statements of Eastleigh Borough Council for the year ended 31 March 2008 under the Audit Commission Act 1998. The financial statements comprise the Income and Expenditure Account, the Statement of Movement on the General Fund Balance, the Statement of Total Recognised Gains and Losses, the Balance Sheet, the Cash Flow Statement, the Collection Fund, and the related notes. The financial statements have been prepared under the accounting policies set out within them.

Respective Responsibilities of the Chief Financial Officer and Auditors

The Chief Finance Officer's responsibilities for preparing the financial statements in accordance with relevant legal and regulatory requirements and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2007 are set out in the Statement of Responsibilities for the Financial Statements.

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

This report, including the opinion, has been prepared for and only for Eastleigh Borough Council's members as a body in accordance with 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. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements present fairly, in accordance with relevant legal and regulatory requirements and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2007, the financial position of the Council and its income and expenditure and cash flows for the year.

We review whether the Governance Statement reflects compliance with 'Delivering Good Governance in Local Government: A Framework' published by CIPFA/SOLACE in June 2007. We report if it does not comply with proper practices specified by CIPFA/SOLACE 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 Governance Statement covers all risks and controls. Neither are we required to form an opinion on the effectiveness of the Council's corporate governance procedures or its risk and control procedures.

We read the other information published with the financial statements and consider whether it is consistent with the audited financial statements. This other information comprises 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 and the Code of Audit Practice issued by the Audit Commission, which requires compliance with International

Standards on Auditing (United Kingdom 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 Council in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Council'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 evaluated the overall adequacy of the presentation of the information in the financial statements.

Opinion

In our opinion the financial statements present fairly, in accordance with relevant legal and regulatory requirements and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2007, the financial position of Eastleigh Borough Council as at 31 March 2008 and its income and expenditure and cash flows for the year then ended.

Signature – document has been signed in September 2008 ... Copy of the signature can be made available by contacting Eastleigh Borough Council, Financial Services Unit, Corporate Accountancy – 023 8068 8005
corporate.accountancy@eastleigh.gov.uk

PricewaterhouseCoopers LLP
Savannah House
3 Ocean Way
Ocean Village
Southampton
SO14 3TJ

Date:

Notes:

- (a) The maintenance and integrity of the Eastleigh Borough Council website is the responsibility of the council; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.
- (b) Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

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

Council's Responsibilities

The Council 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.

Auditor's Responsibilities

We are required by the Audit Commission Act 1998 to be satisfied that proper arrangements have been made by the Council 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 Council has made such proper arrangements. We are not required to consider, nor have we considered, whether all aspects of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

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 December 2007, in all significant respects, Eastleigh Borough Council made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2008.

Best Value Performance Plan

We issued our statutory report on the audit of the authority's best value performance plan for the financial year 2007/08 on December 2007. 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 financial statements in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

Signature – document has been signed in September 2008 ... Copy of the signature can be made available by contacting Eastleigh Borough Council, Financial Services Unit, Corporate Accountancy – 023 8068 8005
corporate.accountancy@eastleigh.gov.uk

PricewaterhouseCoopers LLP
Savannah House
3 Ocean Way
Ocean Village
Southampton
SO14 3TJ

Date:

GLOSSARY OF TERMS

Accruals basis - accounting for income and expenditure during the financial year in which it is earned or incurred, not when money is received or paid.

Amortised cost - is the amount at which a financial asset or financial liability is measured at initial recognition, less principal repayments and plus or minus any unamortised original premium or discount.

Audit Commission - the independent public body responsible for ensuring that public money is spent economically, efficiently and effectively in the areas of local government, housing, health, criminal justice and fire & rescue services.

Balances - the accumulated excess of income over expenditure in the Income & Expenditure Account. This balance is needed as a cushion against unforeseen expenditure.

Best value - delivering economy, efficiency and effectiveness to secure continuous service improvement – “providing the quality services you want at a price you are willing to pay”.

Best Value Accounting Code of Practice (BVACOP) – the code of practice containing a standard definition of services and total cost so that spending comparisons can be consistent between local authorities.

Book value – the value of a fixed asset, such as a building or machine, as recorded in an organisation’s books. It is the lower of the depreciated cost and the recoverable amount. The recoverable amount is the higher of the value in use and the net realisable amount.

Budget requirement – planned spending to be met from council tax, general government grant and national non-domestic business rates.

Capital adjustment account - The purpose of the capital adjustment account will be to bear the historical cost of acquiring, creating or enhancing fixed assets over the life of those assets, the historical cost of deferred charges and to be credited with the resources set aside to finance capital expenditure.

Capital expenditure - expenditure for capital purposes comprises the acquisition, construction, replacement or enhancement of land, buildings, plant, machinery and vehicles which adds to and not merely maintains the value of an existing asset. Advances of long-term loans and grants may also be included as capital expenditure in some situations.

Capital programme – a list of capital projects approved to start in a specified financial year.

Capitalisation – treatment of expenditure as capital rather than as revenue.

Capital Receipts - these are the proceeds from the sale of capital assets. In some limited circumstances, a proportion must be paid into a central government pool, but the remainder is available for new capital projects.

Cash limit – a defined figure set at the start of the financial year to represent the maximum amount that a service can spend.

GLOSSARY OF TERMS continued

Collection Fund - under Part VI of the Local Government Finance Act 1988, charging authorities are required to maintain a Collection Fund. The accounts record Council Tax and Non-Domestic Rates collected by the authority along with payments to precepting authorities (i.e. Hampshire County Council, Hampshire Police Authority, Hampshire Fire & Rescue, Parishes serving parts of the Borough and the Councils' own General Fund).

Community asset - an asset that the Council intends to hold forever, that has no determinable useful life and that may have restrictions on its disposal.

Comprehensive Performance Assessment – this considers how well the Council is run, and will affect how services are delivered in the future.

Contingent asset - a possible asset that arises from past events and whose existence will be confirmed only by the occurrence of one or more uncertain future events not wholly within the entity's control.

Contingency provision – a sum included as a central provision within the budget to meet expenditure where timing and scale are uncertain.

Contingent liability – a potential liability that is uncertain because it depends on the outcome of a future event.

Continuing services - services that the Council will continue to provide in the following financial year.

Corporate and Democratic Core - this comprises all activities in which local authorities engage specifically because they are elected, multi purpose authorities. The cost of these activities are thus over and above those which would be incurred by a series of independent, single purpose, nominated bodies managing the same service. There is therefore no logical basis for apportioning these costs to services.

Council tax - a domestic property tax based on capital values with a personal element (a 25% discount for single adult households). Each property is allocated to one of eight tax bands according to its capital value.

Creditor - an individual or body to which the Council owes money at the Balance Sheet date. Creditors may also be described as "trade payable and other payables".

Current asset - an asset that is realisable or disposable within less than one year without disruption to services..

Current liability - a liability that is due to be settled within one year.

Current service costs - the increase in the present value of a defined benefit scheme's liabilities expected to arise from employee service in the current period.

Debtor - an individual or body that owes money to the Council at the Balance Sheet date. Debtors may also be described as "receivables".

GLOSSARY OF TERMS continued

Deferred capital receipts - these are amounts resulting from asset sales where the income is received in instalments over agreed periods. They derive mainly from mortgages on the sale of Council properties (from a time when the Council still operated a Housing Revenue Account).

Deferred charges - these represent expenditure that may be capitalised under statutory provisions but does not result in the creation of tangible assets. Deferred charges incurred during the year are written off as expenditure to the relevant service revenue account in the year. Where the Council has determined to meet the cost of the deferred charges from existing capital resources or by borrowing, a transfer to the Capital Financing Account then reverses out the amounts charged in the Statement of Movement on the General Fund Balance so there is no impact on the level of council tax.

Defined benefit pension scheme - a pension scheme in which the pensioner's benefits are specified, usually relating to his or her length of service and final salary.

Deposit - a receipt held that is repayable in prescribed circumstances.

Depreciated replacement cost - the current replacement costs adjusted for depreciation. This method of valuation is used when it is not practical to estimate the open-market value for the existing use of a specialised property.

Depreciation - the measure of the wearing out, consumption, or other reduction in the useful economic life of a fixed asset, whether arising from use, the passage of time or obsolescence through technological or other changes.

Discretionary increase in pension payments - this increase arises when an employer agrees to the early retirement of an employee other than for reasons of ill health and agrees to pay pension benefits based on more years than he or she actually worked.

Doubtful debt - a debt that the Council is unlikely to recover. A provision is made in the accounts for doubtful debts each year based on how long debts have been outstanding.

Emoluments - sums paid to employees, including any expenses or non-monetary benefits, which are taxable, but excluding pension contributions made by the employee.

Exceptional item - an item identified separately in the accounts because of its exceptional nature to ensure the presentation of the accounts is fair.

Existing use value - the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction, after proper marketing wherein the parties had acted knowledgeably, prudently and without compulsion, assuming that the buyer is granted vacant possession of all parts of the property required by the business and disregarding potential alternative uses and any other characteristics of the property that would cause its market value to differ from that needed to replace the remaining service potential at least cost.

Expected rate of return on pension assets - reflects the actual split between the various asset classes and the pension fund actuary's expected rate of return on each asset class at the start of an accounting period.

GLOSSARY OF TERMS continued

Fair value - is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's-length transaction.

Financial Reporting Standards - accounting standards are prepared by the Accounting Standards Board to apply as far as possible to all accounting entities within the United Kingdom. They apply to all local authorities where they comply with specific legal requirements and are relevant to local authority activities.

Finance lease - under this type of lease, the organisation paying the lease is treated as if it owns the goods. It gains the profits that would come with ownership but it also suffers the losses.

Financial instruments - represent where a contract gives rise to a financial asset of one entity a financial liability or equity instrument of another. The term "financial instrument" covers most financial assets and financial liabilities. Typical financial instrument liabilities are trade payables, other payables, borrowings and financial guarantees. Typical financial instrument assets are bank deposits, trade receivables, loans receivable, other receivables & advances and investments.

Fixed asset - an asset that yields benefits to the Council and the services it provides for a period of more than one year.

Fixed Asset Restatement Account - this is a non-distributable account through which restatement of asset values is affected, whether at periodic revaluation or at the time of the sale of an asset.

Formula Spending Share (FSS) - the government view of the Council's expenditure "needs" for grant distribution purposes. Calculation is based on a national formula.

Going concern - the concept that the authority will remain in operational existence for the foreseeable future, in particular that the revenue accounts and balance sheets assume no intention to curtail significantly the scale of operations.

Government grants and other contributions deferred - an account that reflects the value of fixed assets in the balance sheet that are financed by specific government grants and other external contributions.

Government grants released - the reduction in the value of a government grant deferred when the corresponding fixed asset is depreciated or disposed of.

Gross revenue expenditure - the total cost of providing the Council's services before deducting income from government grants, or fees and charges for services.

Historical cost - the amount originally paid for a fixed asset.

Impairment loss - a loss arising from an event that significantly reduces an asset's value. Examples are physical damage or a significant decline in the asset's market value during the year.

Infrastructure asset - fixed assets that cannot be taken away or transferred, and whose benefits can only be obtained by continued use of the asset created.

Interest costs on pension - interest on the Council's element of the pension fund.

GLOSSARY OF TERMS continued

Internal recharge - a charge made by one part of the Council to another.

Internal trading account - a service within the Council that operates on a trading basis.

Investment properties - Interest in land and/or buildings:

- in respect of which construction work and development have been completed, and
- which is held for its investment potential, any rental income being negotiated at arm's length.

Long-term borrowing - a loan repayable in more than one year from the Balance Sheet date.

Long-term debtor - an individual or body that owes money to the Council that is not due for payment within one year from the Balance Sheet date.

Market value - the estimated amount for which a property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.

Minimum Revenue Provision - the minimum charge that must be made to the Income & Expenditure Account to set-aside sums for the repayment of borrowing that has been incurred to finance capital expenditure.

National business rate - charges collected by the Council from non-domestic properties at a national rate in the pound set by the government. The proceeds are pooled nationally and distributed to areas in proportion to their population.

Net assets - the amount by which assets exceed liabilities.

Net book value - the current book value of an asset or liability expressed as its original book value net of any accounting adjustments such as depreciation.

Net current liabilities - the amount by which current liabilities exceed current assets.

Net current replacement cost - is the gross current replacement cost, reduced to reflect the physical and functional obsolescence and environmental factors, in order to arrive at the value of the building to the business at the relevant date.

Net operating expenditure - expenditure net of income but before allowing for contributions to and from reserves, revenue financing of capital and provision for debt repayment.

Net realisable value - the existing use value of the asset (or market value in the case of non-operational assets), less the expenses to be incurred in realising the asset.

Net revenue expenditure - gross expenditure less fees and charges for services and specific grants, but before the deduction of revenue support grant and national non-domestic business rates.

Net worth - the amount by which assets exceed liabilities (same as net assets).

Non-distributed costs - these are overheads for which no user now benefits and should not be apportioned to services.

GLOSSARY OF TERMS continued

Non-operational asset - a fixed asset held by the Council 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 development.

Operational asset - a fixed asset held and occupied, used or consumed by the Council in the direct delivery of services.

Operational lease - under this type of lease, the risks and rewards of ownership of the leased goods stay with the company providing the goods on lease.

Past service cost - for a defined benefit scheme, the increase in the present value of the scheme's liabilities related to employee service prior periods arising in the current period as a result of the introduction of, or improvement to, retirement benefits.

Payment in advance - a payment for a service due to be received in a future year.

Post Balance Sheet event - an event that occurs between the Balance Sheet date and the date that the statement of accounts is authorised for use.

Precept - the demand made on the Collection Fund by a number of local government bodies.

Provisions - amounts set-aside in the accounts for liabilities taken where the timing or amount of the settlement of that liability is uncertain.

Realised capital resources - usable capital resources arising mainly from the disposal of fixed assets.

Receipts in advance - a receipt that is attributable to a future year.

Recoverable amount - the value of an asset in its most profitable use, which equates to the higher of either the asset's value in use or net realisable value.

Related party - two or more parties are related when, during the financial period:

- One party has direct or indirect control over another party;
- The parties are subject to common control from the same source;
- One party has influence over the financial and operational policies of the other party to the extent that the other party may not be able to pursue its own interests at all times.

Influence from the same source results in one of the parties entering into a transaction which is against its own separate interests.

Reserves - these are set up with a particular purpose in mind. The sums are voluntarily set-aside from surpluses to fund anticipated future payments.

Residual life - the assumed remaining life of a fixed asset used in calculating the depreciation charge.

Revenue contribution to capital outlay - the financing of capital expenditure directly from revenue as opposed to financing by borrowing or from other capital resources.

GLOSSARY OF TERMS continued

Revenue expenditure - the day to day cost an authority incurs in providing services.

Short-term investments - an investment that is readily realisable.

Specific grants - central government grants to finance a particular services.

Statement of Accounting Practice (SAP) - accounting practices recommended by the major accounting bodies. Although not all SAPs are relevant to local authorities, they form a guide to best practice that in general should be followed.

Stocks - goods that are acquired in advance of their use in providing services of their resale.

Straight-line basis - dividing a sum equally over a number of years.

Supported capital expenditure (SCE) - central government authorisation for the Council to finance capital expenditure by any form of credit agreement such as loans or finance leasing.

Unrealised capital resources - capital resources that are not usable because they are tied up in fixed assets such as property.

Useful life - the period over which the Council will benefit from the use of a fixed asset.

Value in use - the net present value of future cash flows obtainable as a result of an asset's continued use, including those resulting from its ultimate disposal.

Value to business - the measure of the potential benefits from owning an asset or the potential loss that would arise if the owner were to be deprived of the asset, which equates to the lower of either the asset's net current replacement cost or recoverable amount.

Work in progress - a product or service that is incomplete at the end of the year.

Write off - elimination of an asset over a defined period, usually by means of charging or crediting the Income & Expenditure account.