



Meeting	Audit and Governance Committee
Date and Time	Thursday, 25th July, 2019 at 6.30 pm.
Venue	Walton Suite, Guildhall, Winchester

AGENDA

PROCEDURAL ITEMS

1. **Apologies and Deputy Members**
To note the names of apologies given and Deputy Members who are attending the meeting in place of appointed Members.
2. **Disclosure of Interests**
To receive any disclosure of interests from Members and Officers in matters to be discussed.

Note: Councillors are reminded of their obligations to declare disclosable pecuniary interests, and non disclosable pecuniary interests in accordance with legislation and the Council's Code of Conduct.

If you require advice, please contact the appropriate Democratic Services Officer, prior to the meeting.

3. **Chairperson's Announcements**
4. **To note the Audit and Governance Work Programme 2019 2020 (Pages 5 - 6)**
5. **Minutes of the Previous Meeting of the Audit and Governance Committee held on 13 June 2019 (Pages 7 - 12)**

BUSINESS ITEMS

6. **Public Participation**
To receive and note questions asked and statements made from members of the public on matters which fall within the remit of the Committee.



7. **Governance Quarterly Update Quarter 1 2019/20 AG008 (Pages 13 - 22)**
8. **Audit Results Report for the year ended 31 March 2019 AG0010 (to follow)**
9. **Annual Governance Statement AG011 (Pages 23 - 38)**
10. **Annual Financial Report 2018/19 AG012 (Pages 39 - 130)**
11. **Treasury Management Outturn 2018/19 AG006 (Pages 131 - 144)**

L Kirkman
Corporate Head of Resources and Monitoring Officer

Members of the public are able to easily access all of the papers for this meeting by opening the QR Code reader on your phone or tablet. Hold your device over the QR Code below so that it's clearly visible within your screen and you will be redirected to the agenda pack.



17 July 2019

Agenda Contact: Dave Shaw, Principal Democratic Services Officer
Tel: 01962 848221 email: dshaw@winchester.gov.uk

MEMBERSHIP

Chairperson:

Power (Liberal Democrats)

Vice-Chairperson:

Bronk (Liberal Democrats)

Conservatives

Godfrey

Mather

Miller

Weston

Liberal Democrats

Achwal

Becker

Bentote

Gottlieb

Laming

Deputy Members

Gemmell

Williams

Quorum = 4 members

TERMS OF REFERENCE

Audit and Governance Committee – Included within the Council's Constitution (Part 2, Article 9)

PUBLIC PARTICIPATION

A public question and comment session is available at 6.30pm for a 15 minute period. There are few limitations on the questions you can ask. These relate to current applications, personal cases and confidential matters. Please contact Democratic Services on 01962 848 264 in advance of the meeting for further details. If there are no members of the public present at 6.30pm who wish to ask questions or make statements, then the meeting will commence.

DISABLED ACCESS:

Disabled access is normally available, but please phone Democratic Services on 01962 848 264 or email democracy@winchester.gov.uk to ensure that the necessary arrangements are in place.

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THE AUDIT AND GOVERNANCE COMMITTEE - WORK PROGRAMME 2019/20

25 JULY 2019					
	BUSINESS	LEAD OFFICER	COMMITTEE DATE		STATUS/COMMENT
			Original	Revised	
	Audit Results Report for the year ended 31 March 2019	Kevin Suter – Associate Partner, Ernst and Young	25 July 2019		
	Annual Financial Report 2018/19 (for approval)	Joseph Holmes	25 July 2019		
	Annual Governance Statement	Joseph Holmes	25 July 2019		
	Risk Management Policy 2019	Joseph Holmes	25 July 2019	28 November 2019	
	Treasury Management Outturn 2018/19	Joseph Holmes	25 July 2019		
	Governance Quarterly Update – Q1 2019/20	Joseph Holmes	25 July 2019		
28 NOVEMBER 2019					
	BUSINESS	LEAD OFFICER	COMMITTEE DATE		STATUS/COMMENT
			Original	Revised	
	Annual Audit Letter 2018/19	Kevin Suter – Associate Partner, Ernst and Young	28 November 2019		
	Governance Quarterly Update Q2 2019/20	Strategic Director - Resources	28 November 2019		
	Managing project risks – including reputational and financial risks	Strategic Director - Resources	28 November 2019		

	Treasury Management mid-year monitoring report 2019/20	Strategic Director - Resources	28 November 2019		
6 MARCH 2020					
	BUSINESS	LEAD OFFICER	COMMITTEE DATE		STATUS/COMMENT
	Internal Audit Plan 2020/21	Antony Harvey – Chief Internal Audit Southern Internal Audit Partnership	6 March 2020		
	Internal Audit Charter 2020/21	Antony Harvey – Chief Internal Audit Southern Internal Audit Partnership	6 March 2020		
	Certification of Claims and Returns Annual Report 2018/19	Strategic Director - Resources	6 March 2020		
	Governance Quarterly update Q3 2019/20	Strategic Director - Resources	6 March 2020		
	Housing Revenue Account (HRA) – risks and financial viability	Richard Botham	6 March 2020		
	Local Code of Governance 2020	Strategic Director - Resources	6 March 2020		
	Planning for and the audit of the accounts 2019/20	Strategic Director - Resources	6 March 2020		

AUDIT AND GOVERNANCE COMMITTEE

13 June 2019

Attendance:

Councillors

Power (Chair)

Bentote
Bronk
Gottlieb
Laming

Mather
Miller
Weston

Deputy Members:

Councillor Gemmell (Standing Deputy for Councillor Godfrey)

Apologies for Absence:

Councillors Achwal, Becker and Godfrey

1. CHAIRPERSON'S ANNOUNCEMENTS

The Chair announced that it had been drawn to her attention that the role of the Human Resources Sub-Committee as currently referred to in the Constitution (and also in Report AG007, elsewhere on the agenda) required clarification and amendment. Whilst full Council would be required to make formal changes to the Constitution, she had agreed to the following changes in principle.

The Human Resources Sub-Committee was appointed on an adhoc basis from the Audit and Governance Committee to deal with matters not delegated under the officer Scheme of Delegation such as disciplinary matters. An Appointments Panel would undertake a separate role for the recruitment of the Head of Paid Service and Strategic Directors in accordance with the Officer Employment Procedure Rules. This would be convened on an adhoc basis, as required. The membership of the Appointments Panel was to be comprised of Leader, deputy Leader, leader of the opposition and deputy leader of the opposition as well as a member of the Audit & Governance Committee.

2. APPOINTMENT OF VICE-CHAIRPERSON FOR THE 2019/20 MUNICIPAL YEAR

RESOLVED:

That Councillor Bronk be appointed Vice Chairman of the Committee for the 2019/20 Municipal Year.

3. **TO NOTE THE TIME OF FUTURE MEETINGS OF THE COMMITTEE**

RESOLVED:

That the timetable of meetings for 2019/20 be agreed as set out on the agenda.

4. **MINUTES OF THE PREVIOUS MEETING OF THE AUDIT COMMITTEE HELD ON 7 MARCH 2019 AND PERSONNEL COMMITTEE HELD ON 4 MARCH 2019**

RESOLVED:

That the minutes of the previous meeting of the Audit Committee held on 7 March 2019 and of the Personnel Committee held on 4 March 2019 be approved and adopted.

5. **PUBLIC PARTICIPATION**

There were no statements made or questions put from members of the public.

6. **AUDIT AND GOVERNANCE COMMITTEE - HUMAN RESOURCES AND STANDARDS SUB COMMITTEE APPOINTMENTS**

(Report AG007 refers)

Having regard to the clarification of the role of the Human Resources Sub-Committee and that of the Appointments Panel, the Committee noted the correction necessary to the Report at the final sentence of paragraph 11.9.

This should read as follows:

‘Again, the Human Resources Sub-Committee is only likely to meet occasionally, ~~such as for the recruitment of the most senior officers of the Council~~ to deal with matters not delegated under the officer Scheme of Delegation. An Appointments Panel would undertake a separate role for the recruitment of the Head of Paid Service and Strategic Directors in accordance with the Office Employment Procedure Rules.’

The Strategic Director (Resources) clarified that performance monitoring of the HR function (including staff sickness) which was previously reported to the Personnel Committee was now considered by The Scrutiny Committee and Cabinet as part of the quarterly performance reporting.

The Interim Service Lead (Legal) explained the revised process for dealing with standards complaint matters, including the role of the Independent Persons and reminded Members that procedures complied with requirements of the Localism Act.

RESOLVED:

1. That the Report be noted.
2. That the correction to paragraph 11.9 of the Report as described above be noted.

7. **GOVERNANCE QUARTERLY UPDATE QUARTER 4 2018/19**

(Report AG001 refers)

The Strategic Director (Resources) advised that none of the limited assurance audits and overdue actions referred to within the Report were within high priority areas. It was clarified that the overdue action with regards to Hampshire Cultural Trust would be addressed by completion of the signing of a lease of a building that the Trust occupied and it was expected that this would be completed very soon.

RESOLVED:

That the content of the Report and the progress against the Annual Governance Statement Action Plan in Appendix 1 be noted.

8. **ANNUAL INTERNAL AUDIT REPORT AND OPINION 2018/19**

(Report AG002 refers)

The Chair welcomed to the meeting Antony Harvey and Beverly Davies from Southern Internal Audit Partnership.

Mr Harvey presented this item which, in summary, was a backward look over the previous year of work delivered by the Southern Internal Audit Partnership with regards to the Council. Mr Harvey reported that there were no 'No Assurance' opinions within the report and the key observations made during the year were summarised on page 8 of his report (Appendix to Report AG002). Areas of Limited Assurance were set out at the end of annex 1 to his report, namely; HR – Use of Agency Staff, Health & Safety and Main Accountancy (including Reconciliations). He described to the Committee how the particular matters raised by the respective audits were now being positively progressed.

In response to a question, the Strategic Director (Resources) advised that the Council's Anti Fraud and Corruption Policy would be updated to reflect changes to officers in the organisation.

The Finance Manager also responded to questions of the Internal Audit's Limited Assurance opinion with regard to bank reconciliation processes. In summary, an audit had been requested by officers to review existing procedures given an increase in the number of different income streams to the Council (an increasingly wide-range of payment methods is being offered for services, for example e-payments). Following the audit and improvements

made as a result, officers were now confident that reconciliation processes were now more robust. Mr Harvey also explained that while the report showed that there had been Limited Assurance, this was the case when the report was published. He was happy that officers continued to take appropriate action and if required, the audit actions could be followed up on as part of the work plan for 2019/20.

The Chair clarified that the framework of the Internal Audit programme of work was agreed annually in March by this Committee.

In noting that a member of the committee had particular concerns that were considered could be included in the auditor's work programme, Mr Harvey advised that in certain cases, there could be deviation from the agreed Plan, such as where a particular matter had been raised during the subsequent year. The Strategic Director (Resources) also highlighted that the committee considered the future audit plan in March each year and could include specific audit reports then, but that specific queries should be directed through existing reporting mechanisms e.g. member/officer protocol and other reporting already mentioned in the meeting. Mr Harvey was satisfied that the scope of the work undertaken during the previous year was enough to have achieved the audit opinions as set out.

Councillor Gottlieb advised that he would not be agreeing to accept the Annual Report and Opinion as he had concerns with regards to particular areas of the Council's work that he considered should have been audited during the previous year.

RESOLVED:

That the Chief Internal Auditor's Annual Report and Opinion for 2018 - 19 attached as Appendix 1 to the Report be accepted.

9. **ANNUAL AUDIT FEE 2019/20**

(Report AG004 refers)

In response to a question about the implications for the External Auditor not being able to give their opinion by the statutory deadline of 31st July, the Finance Manager clarified that the Council must publish fully audited accounts by 31 July annually; otherwise there was a requirement to publish a notice stating why this was not achieved.

RESOLVED:

That the indicative annual audit fee for 2019/20 be approved.

10. **AUDIT AND GOVERNANCE COMMITTEE WORK PROGRAMME 2019 2020**

(Report AG005 refers)

The Strategic Director (Resources) clarified that the 'Managing Project Risks – including Reputational and Financial risk' report in the work programme for the 28 November Committee was to consider, for example, the cumulative financial and reputational risk across projects. It would not consider the project's financial modelling retrospectively.

RESOLVED:

That the Audit Committee Work Programme for 2019/20 be approved.

11. **DRAFT ANNUAL FINANCIAL REPORT 2018/19 (FOR INFORMATION)**

RESOLVED:

That the draft Annual Financial Report for 2018/19, as published on the Council's website, be noted.

The meeting commenced at 6.30 pm and concluded at 8.00 pm

Chairperson

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REPORT TITLE: GOVERNANCE QUARTERLY UPDATE – QUARTER 1 2019/20

25 JULY 2019

REPORT OF CABINET MEMBER: CLLR CUTLER – CABINET MEMBER FOR FINANCE AND RISK

Contact Officer: Joseph Holmes Tel No: 01962 848 220 Email
jholmes@winchester.gov.uk

WARD(S): ALL

PURPOSE

To provide members of the Audit and Governance Committee with a summary overview of the key issues in respect of governance arising during the first quarter of the 2019/20 financial year.

RECOMMENDATIONS:

1. That the Audit and Governance Committee notes the content of the report and the progress against the internal audit management actions.

IMPLICATIONS:

- 1 COUNCIL STRATEGY OUTCOME
- 1.1 This summary document supports the Council's approach to providing efficient public services by managing and highlighting the latest key governance issues requiring action.
- 2 FINANCIAL IMPLICATIONS
- 2.1 None identified.
- 3 LEGAL AND PROCUREMENT IMPLICATIONS
- 3.1 None identified.
- 4 WORKFORCE IMPLICATIONS
- 4.1 None.
- 5 PROPERTY AND ASSET IMPLICATIONS
- 5.1 None.
- 6 CONSULTATION AND COMMUNICATION
- 6.1 Consultation on the content of the Report has been undertaken with the Portfolio Holder for Finance and Risk and the Chairman of the Audit and Governance Committee.
- 7 ENVIRONMENTAL CONSIDERATIONS
- 7.1 None.
- 8 EQUALITY IMPACT ASSESSEMENT
- 8.1 None.
- 9 DATA PROTECTION IMPACT ASSESSMENT
- 9.1 None required.
- 10 RISK MANAGEMENT

Risk	Mitigation	Opportunities
<i>Reputation – ensuring that an effective governance framework is in place and followed</i>	This report is a summary of the arrangements in place to ensure the Council's governance processes and procedures	By pulling together the latest issues from across governance information this gives the committee more of an opportunity to

	are robust and fit for purpose.	identify any cross-cutting themes that might occur.
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11 SUPPORTING INFORMATION:

- 11.1 This report sets out the summary information in respect of the first quarter of the 2019/20 financial year concerning governance.

Annual Governance Statement

- 11.2 The updated Annual Governance Statement (AGS) is included as a separate report on this Committee's agenda (Report AG011 refers).
- 11.3 A report covering the progress achieved against the actions in the Annual Governance Statement will be brought to this Committee at its meeting on 28 November 2019.

Declarations of gifts and hospitality

- 11.4 During the period April to June 2019, there was three declaration by members or officers having received gifts or hospitality
- 11.5 The Council's Code of Conduct advises that "each member must register, within 28 days, any gifts or hospitality received in accordance with the instructions issued within the Council by the Monitoring Officer."
- 11.6 Part B of the Register of Members' Interests Form confirms that these are gifts and hospitality received with an estimated value of at least £50.
- 11.7 As set out in the Employee Code of Conduct, staff may only accept a gift it is offered during official authorised hospitality or is of a nominal value (for example an item under £5) and in either case there is no ulterior motive or danger of misinterpretation by the public.

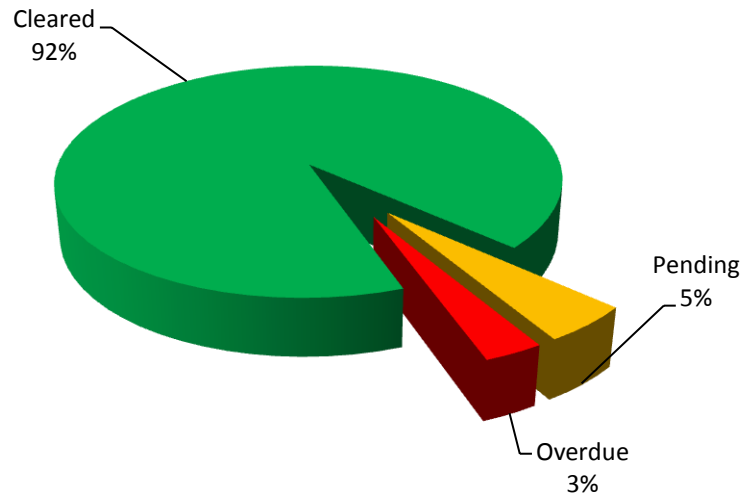
Internal Audit Assurance Reports

- 11.8 At the last meeting of this Committee an update was given on the completion of the audits that were included in the 2018/19 Internal Audit Programme. At that time there were three audits at draft report stage awaiting final sign-off.
- 11.9 The Main Accounting final audit report has now been issued and the final reports fore the HR – Use of Agency Staff and IT – Mobile Devices are due to be issued before the end of July. This will conclude the programme of audits for 2018/19.
- 11.10 Work by the Southern Internal Audit Partnership has begun on the programme of audits for 2019/20 as set out in report AUD227 of 7 March 2019.
- 11.11 As it is early on in the new financial year, a progress report is not included at this time but will be reported at the next meeting on 28 November 2019.

Internal Audit Management Tracking

11.12 The chart below shows the current position (since 1 April 2015) of the progress of the management actions arising from internal audit reports.

Summary of audit recommendation responses



11.13 Progress against the management actions that are included in the Internal Audit reports are reviewed regularly and a summary table showing the status of these actions is reported on a quarterly basis. These recommendations and actions are kept under regular review to assess where some are superseded by external or internal factors.

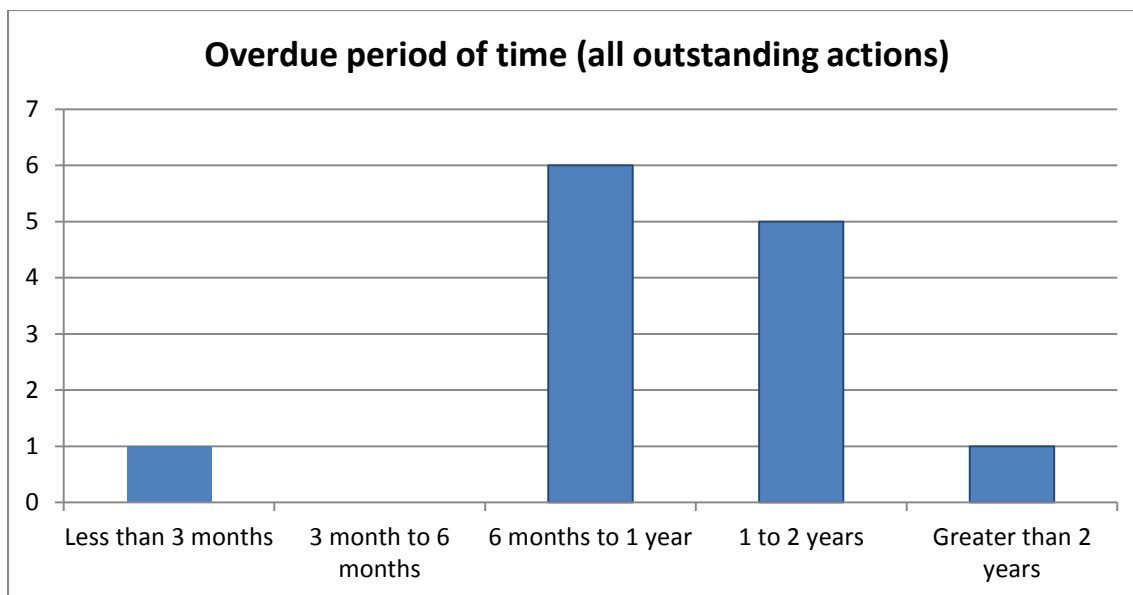
11.14 To support the Committee to quickly identify where there are overdue actions, the progress table on the next page includes only the audits where there are overdue actions. It remains a priority for officers to focus on completing their actions within the agreed timescales and progress continues to be made to reduce the total number of overdue actions.

11.15 There are currently 13 overdue audit actions with no high priority overdue actions.

11.16 There are a number of completed internal audits that have pending but not yet overdue actions, and as such are not included in the table.

Audit Review	Report Date	Audit Sponsor	Assurance Opinion	Management Actions ('High Priority')				
				Reported	Not Accepted	Pending	Cleared	Overdue
Hampshire Cultural Trust	24/05/16	SDR	Limited	3 (0)	0 (0)	0 (0)	2 (0)	1 (0)
Information Governance	28/03/17	SDR	Adequate	11 (1)	0 (0)	0 (0)	8 (1)	3 (0)
Development Management	17/05/17	SDS	Substantial	1 (0)	0 (0)	0 (0)	0 (0)	1 (0)
Recruitment	18/05/17	SDR	Limited	6 (0)	0 (0)	0 (0)	4 (0)	2 (0)
Cyber Security	27/09/17	SDR	Limited	5 (1)	0 (0)	0 (0)	4 (1)	1 (0)
IT Software Licensing and IT Asset Management	12/03/18	SDR	Adequate	3 (0)	0 (0)	0 (0)	2 (0)	1 (0)
Housing Planned Maintenance	01/05/18	SDS	Adequate	2 (0)	0 (0)	0 (0)	1 (0)	1 (0)
Income Generation and Collection	11/06/18	SDR	Adequate	8 (0)	0 (0)	0 (0)	6 (0)	2 (0)
Procurement	12/07/18	SDR	Adequate	3 (0)	0 (0)	0 (0)	2 (0)	1 (0)

- 11.17 Committee members previously requested a chart be included in future quarterly governance monitoring reports that show the period of time that the outstanding audit management actions have been overdue.
- 11.18 There are currently 13 overdue actions and the chart below provides details of amount of time that has lapsed since the target date for these actions.



Risk Management

- 11.19 A risk management workshop was held with Cabinet on 1 July as part of the review of the Council's Risk Management Policy.
- 11.20 The updated Policy was due to be considered at this meeting of the Audit and Governance Committee but has now been deferred to the next meeting on 28 November.

Code of Conduct complaints

- 11.21 The Audit and Governance Committee has two sub-committees including the Standards Sub-Committee, whose purpose is to consider investigation reports, in respect of Code of Conduct Complaints, that have been referred to it by the Monitoring Officer.
- 11.22 It is important for members of the Audit and Governance Committee to receive regular updates on the numbers of Code of Conduct Complaints that have been received by the Monitoring Officer and their resolution or outcome at the initial assessment stage.
- 11.23 Appendix 1 provides brief details of the Code of Conduct complaints that have been received since 15 May 2019 and where the assessment (or investigation) into the complaint has concluded, a brief update on the outcome.

12 OTHER OPTIONS CONSIDERED AND REJECTED

12.1 None.

BACKGROUND DOCUMENTS:-

Previous Committee Reports:-

AG001 Governance Quarterly Update Quarter 4 2018/19

Other Background Documents:-

None

APPENDICES:

Appendix 1 – Code of Conduct complaints

Code of Conduct Complaints received since May 15 2019 (under new Constitution)

Date Submitted	Complaint against district or parish/town councillor	Outcome
15 May	District Councillor	Deputy Monitoring Officer completed assessment 5 June and complainant advised 20 June - no breach
24 May	Parish/Town Councillor	Deputy Monitoring Officer conducting initial assessment

Outstanding Code of Complaints (being processed under the old Constitution)

27 July 2017	District Councillor	Referred for Investigation
16 Sept 2018	District Councillor	Referred for Investigation
7 March 2019	Parish/Town Councillor	Deputy Monitoring Officer conducting initial investigation
1 April 2019	Parish/Town Councillor	Deputy Monitoring Officer completed initial assessment and complainant advised 20 May 2019 - no breach
4 April 2019	District Councillor	Deputy Monitoring Officer conducting initial assessment
12 April 2019	District Councillor	Deputy Monitoring Officer completed assessment and complainant advised 25 April 2019 - no breach
26 April 2019	District Councillor	Deputy Monitoring Officer conducting initial assessment
1 May 2019	Parish/Town Councillor	Deputy Monitoring Officer completed assessment and complainant advised 7 June - no breach

Date Submitted	Complaint against district or parish/town councillor	Outcome
2 May 2019	Parish/Town Councillor	Deputy Monitoring Officer completed assessment and complainant advised 7 June - no breach
3 May 2019	Parish/Town Councillor	Deputy Monitoring Officer completed assessment and complainant advised 7 June - no breach

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REPORT TITLE: ANNUAL GOVERNANCE STATEMENT 2018/19

25 JULY 2019

REPORT OF CABINET MEMBER: CLLR CUTLER – PORTFOLIO HOLDER FOR FINANCE AND RISK

Contact Officer: Joseph Holmes Tel No: 01962 848 220 Email: jholmes@winchester.gov.uk

WARD(S): ALL

PURPOSE

This report sets out the proposed Annual Governance Statement for 2018/19 and the proposed actions that will be undertaken during the coming year to address the issues arising.

RECOMMENDATIONS:

1. That the Audit Committee approves the Annual Governance Statement for 2018/19 as set out in Appendix 1
2. That the issues arising and proposed actions identified in Appendix 1 be noted and that progress against the actions be brought back to the Audit Committee in six months time.

IMPLICATIONS:

1 COUNCIL STRATEGY OUTCOME

- 1.1 The Annual Governance Statement is a statutory document and integral to the governance framework at the Council that supports the achievement of the outcomes included in the Council Strategy.

2 FINANCIAL IMPLICATIONS

- 2.1 There are no direct financial implications. Where further work is required to respond to the issues identified, any additional financial resources required to implement identified improvements will be raised separately or through the budget process.

3 LEGAL AND PROCUREMENT IMPLICATIONS

- 3.1 The Annual Governance Statement is a statutory document which explains the processes and procedures that are in place to enable the Council to carry out its functions effectively. Local authorities in the UK are required to prepare the Statement in accordance with proper practices and the Council has followed the CIPFA/SOLACE Delivering Good Governance 2016 framework.

- 3.2 The necessity to confirm with these Regulations and the governance framework is recognised accurately in this report.

- 3.3 There are no direct legal implications. Where further work is required to respond to the issues identified, any additional legal resources required to implement identified improvements will be raised separately or through the budget process.

4 WORKFORCE IMPLICATIONS

- 4.1 None.

5 PROPERTY AND ASSET IMPLICATIONS

- 5.1 None.

6 CONSULTATION AND COMMUNICATION

- 6.1 The Portfolio Holder for Finance and Risk and Chairman of Audit and Governance Committee have been consulted on the content of the report and the issues that are to be included in the Annual Governance Statement.

- 6.2 The internal Corporate Governance Group consisting of officers has also been consulted on the content of the report.

7 ENVIRONMENTAL CONSIDERATIONS

7.1 None

8 EQUALITY IMPACT ASSESSEMENT

8.1 None

9 DATA PROTECTION IMPACT ASSESSMENT

9.1 None.

10 RISK MANAGEMENT

Risk	Mitigation	Opportunities
<i>Property</i>	n/a	n/a
<i>Community Support</i>	n/a	n/a
<i>Timescales</i>	n/a	n/a
<i>Project capacity</i>	n/a	n/a
<i>Financial / VfM</i>	n/a	n/a
<i>Legal</i>	The Annual Governance Statement (AGS) is a statutory document required by the Regulation of the Accounts and Audit Regulations 2015	The annual review of the effectiveness of the system of internal control supports the Council to identify and correct control weaknesses.
<i>Innovation</i>	n/a	n/a
<i>Reputation</i>	The preparation and publication of the AGS is a fundamental element of the Council's governance framework	Having a robust AGS and governance framework provides the assurance that the Council is delivering good governance.
<i>Other</i>	n/a	n/a

11 SUPPORTING INFORMATION:

- 11.1 The Council's Constitution delegates power to the Audit and Governance Committee for it to "review the Annual Governance Statement prior to approval and consider whether it properly reflects the risk environment and supporting assurances, taking into account Internal Audit's opinion on the overall adequacy and effectiveness of the council's framework of governance, risk management and control."
- 11.2 This Report presents the Annual Governance Statement (AGS) for the year 2018/19 for consideration by the Committee.
- 11.3 The Annual Governance Statement is a statutory document which explains the processes and procedures that are in place to enable the Council to carry out its functions effectively.

- 11.4 This Statement provides an assurance to the Council and its stakeholders that good governance procedures and requirements are in place and is produced following a review of the governance arrangements and includes an action plan to address any significant governance issues that have been identified.
- 11.5 The Council must at least annually conduct a review of the effectiveness of its systems on internal control and report its findings in an annual governance statement.
- 11.6 The Statement must be prepared in accordance with proper practices and the Council has followed the CIPFA/SOLACE Delivering Good Governance 2016 framework.
- 11.7 The AGS is a valuable means of communication. It enables the Council to explain to the community, service users, tax payers and other stakeholders its governance arrangements and how the controls it has in place to manage risks of failure to deliver its outcomes and priorities.
- 11.8 Progress against the actions included in the 2017/18 Annual Governance Statement was reported to this Committee at its last meeting held on 13 June 2019 (Report AG001 refers).
- 11.9 The issues that have been identified as requiring consideration and action during 2019/20 are:

Partnership working – ensuring that the Council has adequate governance arrangements in place to maintain effective partnership working.

Capacity to deliver projects - ensuring that the Council has sufficient and appropriately qualified staff to deliver its programme of projects while maintaining frontline services to residents and businesses.

Procurement and contract management - ensuring that the Council maintains a comprehensive, publicly accessible contract register, following its own financial and contract procedure rules and complying with relevant contract management legislation.

12 OTHER OPTIONS CONSIDERED AND REJECTED

12.1 None.

BACKGROUND DOCUMENTS:-

Previous Committee Reports:-

[AUD216](#) Annual Governance Statement 2018/19

Other Background Documents:-

None.

APPENDICES:

Appendix 1 Annual Governance Statement 2018/19

Appendix 2 Annual Governance Statement 2018/19 Action Plan

ANNUAL GOVERNANCE STATEMENT 2018/19

1. Scope of Responsibility

- 1.1 Winchester City Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded, properly accounted for, and used economically, efficiently and effectively. Winchester City 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.
- 1.2 In discharging this overall responsibility, Winchester City Council is responsible for putting in place proper arrangements for the governance of its affairs and facilitating the effective exercise of its functions, which includes arrangements for the management of risk.
- 1.3 Winchester City Council has approved and adopted a code of corporate governance, which is consistent with the principles of the CIPFA/SOLACE Framework *Delivering Good Governance in Local Government 2016*.
- 1.4 This Statement explains how Winchester City Council has complied with the Code and also meets the requirements of regulation 6(1)(a) of the Accounts and Audit Regulations 2015 in relation to the review of its system of internal control in accordance with best practice, and that the review be reported in an Annual Governance Statement.
- 1.5 The Council has recently undertaken a comprehensive review of its Constitution which takes into account the recommendation of the Independent Report on Silver Hill and of the Local Government Association Peer Review in February 2017.
- 1.6 The updated Constitution was adopted by Council on 19 March 2019 and became effective from the start of the new municipal year.

2. The Purpose of the Governance Framework

- 2.1 The purpose of the governance framework is to ensure that the authority directs and controls its activities in a way that meets standards of good governance and is accountable to the community. It does this by putting in place an organisational culture and values which drive a responsible approach to the management of public resources, supported by appropriate systems and processes, and ensuring that these work effectively. It works with the Council's Performance Management Framework to ensure that the Council has in place strategic objectives reflecting the needs of the community and is monitoring the achievement of these objectives through delivery of appropriate, cost-effective services.

- 2.2 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 Winchester City 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.
- 2.3 The governance framework has been in place at Winchester City Council for the year ended 31 March 2019 and up to the date of approval of the Statement of Accounts.

3. **The Principles of Good Governance**

- 3.1 The CIPFA/SOLACE framework Delivering Good Governance in Local Government sets out seven core principles of good governance, these are:

Principle 1 – Behaving with integrity, demonstrating strong commitment to ethical values

Principle 2 – Ensuring openness and comprehensive stakeholder engagement

Principle 3 – Defining outcomes in terms of sustainable economic, social and environmental benefits

Principle 4 – Determining the interventions necessary to optimise the achievement of the intended outcomes

Principle 5 – Developing the entity's capacity, including the capability of its leadership and the individuals within it

Principle 6 – Managing risks and performance through robust internal control and strong public financial management

Principle 7 – Implementing good practices in transparency, reporting, and audit to deliver effective accountability

4. **Methodology for preparing the Annual Governance Statement**

- 4.1 The Annual Governance Statement has been prepared using a process similar to that used in previous years, including;
- Heads of Teams completing a Statement of Assurance providing details as to the extent and quality of internal control arrangements operating within their teams during the previous year. Managers are asked to declare any weaknesses in the governance

arrangements in their service areas, including overdue and significant internal audit actions.

- An internal control checklist is provided to Heads of Teams to support the completion of their Statement of Assurance. The checklist requires the manager to self assess the arrangements in their team against a number of criteria including risk and performance management, financial control and staffing.
- Review of the annual Internal Audit report and quarterly internal audit progress reports.
- The Council's Audit and Governance Committee considers the draft Annual Governance Statement at its meeting in the spring and is given the opportunity to give its input to the Statement and to consider whether it accurately reflects the Council's control environment.
- The Audit and Governance Committee approves the Annual Governance Statement in the summer and is signed off by the Chief Executive or Section 151 officer and Leader of the Council.

5. The Governance Framework

5.1 There are a number of key elements to the systems and processes that comprise the Council's governance arrangements and these are underpinned by the core principles of good governance which are:-

- Focusing on the purpose of the authority and on outcomes for the local community and creating and implementing a vision for the local area.
- Members and Officers working together to achieve a common purpose with clearly defined functions and roles.
- Promoting values for the authority and demonstrating the values of good governance through upholding high standards of conduct and behaviour.
- Taking informed and transparent decisions which are subject to effective scrutiny and managed risk.
- Developing the capacity and capability of Members and officers to be effective.
- Engaging with local people and other stakeholders to ensure robust public accountability

5.2 The Council's Constitution explains existing policy making and delegation procedures and the matters which must be dealt with by the full Council. It documents the role and responsibilities of Cabinet, portfolio holders, each committee and Members and officers. The Council has approved a protocol governing relationships between Members and Officers as part of its Constitution and has adopted codes of conduct for both Officers and Members which facilitate the promotion, communication and embedding of proper

standards of behaviour. Officers have job descriptions and there are clearly defined schemes of delegation, all of which are reviewed from time to time.

- 5.3 The Council's Constitution incorporates clear guidelines to ensure that business is dealt with in an open manner except in circumstances when issues should be kept confidential. Meetings are open to the public except where personal or confidential matters are being discussed. All Cabinet /committee agendas, minutes and portfolio holder decisions are published promptly on the Council's website. In addition, senior officers of the Council can make decisions under delegated authority. The over-arching policy of the Council is decided by the full Council.
- 5.4 The Scrutiny Committee and Audit and Governance Committee hold Portfolio Holders to account for delivery of the Council's policy framework within the agreed budget, and protocols are in place for any departure from this to be properly examined.
- 5.5 The Council engages with its communities through a number of channels, including community planning, consultation events, surveys and campaigns relating to specific initiatives.
- 5.6 The Council Strategy is supplemented by more detailed information on the key projects and programmes of work that the authority will be delivering during the year – with actions to achieve priority outcomes set out in service plans. More detailed service plans are drawn up by teams across the Council, with objectives set for individual members of staff through the annual appraisal process. This process also looks at the development and training needs of staff, with a programme of training then put in place to meet these needs.
- 5.7 Progress against the Council Strategy outcomes and budgets is monitored regularly by the Executive Leadership Board and Portfolio Holders. The Scrutiny Committee receives quarterly reports focusing on delivery of key projects and programmes of work and drawing attention to other areas where progress is exceeding, or falling short of targets. Portfolio Holders also monitor progress in delivery.
- 5.8 The Council has an officer Strategic Leadership Team to monitor financial performance, service performance, the progress of key corporate projects and risk management and to oversee the implementation of recommendations from Internal Audit reports.
- 5.9 The Council publishes an Annual Financial Report (incorporating the Statement of Accounts) annually within the statutory timescales. The Annual Financial Report incorporates the full requirements of best practice guidance in relation to corporate governance, risk management and internal control.
- 5.10 The Council is subject to independent audit by Ernst and Young and receives an Annual Audit Letter reporting on findings. The Council supplements this work with the Southern Internal Audit Partnership and ad hoc external peer

reviews. The Audit Committee undertakes the core functions as identified in CIPFA's *Audit Committees – Practical Guidance for Local Authorities*.

- 5.11 The Council has set out the arrangements for managing risk in its Risk Management Policy which also includes a Risk Appetite Statement and is approved by Cabinet and reviewed annually.

6. Review of effectiveness

- 6.1 The authority has a statutory responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of effectiveness is informed by the work of Heads of Teams who have responsibility for the development and maintenance of a sound governance environment.
- 6.2 Staff awareness training has been undertaken to ensure that the Council complies adequately with the provisions of the General Data Protection Regulation (GDPR) and Freedom of Information Acts, and Equality requirements.
- 6.3 The Council has appointed the Strategic Director: Resources as the Section 151 officer with the statutory responsibility for the proper administration of the Council's financial affairs. CIPFA/SOLACE advises that the S151 officer should report directly to the Chief Executive and be a member of the 'Leadership Team', of equal status to other members. The Strategic Director: Resources is a member of the Executive Leadership Team.
- 6.4 The Council has appointed the Corporate Head of Resources as the statutory "Monitoring Officer" and has procedures to ensure that the Monitoring Officer is aware of any issues which may have legal implications.
- 6.5 All Cabinet reports are reviewed by the S151 and Monitoring Officer. All reports to Cabinet are required to demonstrate how the subject matter links to the Council Strategy and highlight resource implications. Officers are also asked to draw out risk, equality, sustainability, management and legal issues as appropriate. Similar procedures are in place for the Scrutiny and Regulatory Committees.
- 6.6 The Council has whistle-blowing and anti-fraud and corruption policies. It has a formal complaints procedure and seeks to address and learn from complaints. The Council's Standards Committee deals with complaints relating to the conduct of Members.
- 6.7 Members' induction training is undertaken after each election. Members also receive regular updates and training on developments in local government.

6.8 Key roles in maintaining and reviewing the effectiveness is undertaken by:

The Council	collectively responsible for the governance of the Council and the full Council is responsible for agreeing the Constitution, policy framework and budget. Manages risk in making operational and governance decisions together with proposing and implementing the policy framework, budget and key strategies.
The Cabinet	receives regular monitoring reports on revenue and capital expenditure and performance.
Audit and Governance Committee	approves the annual audit plan, monitors the internal control environment through receipt of audit reports and this Statement, and keeps an overview of arrangements for risk management. It also approves this Statement and the Statement of Accounts.
External Audit	external audit is provided by Ernst Young LLP. Whilst the external auditors are not required to form an opinion on the effectiveness of the Council's risk and control procedures, their work does give a degree of assurance following the annual audit of the Council's financial accounts.
Internal Audit	<p>The Southern Internal Audit Partnership provide the Council with an internal audit service which includes the Council's entire control environment. The Head of the Southern Internal Audit Partnership takes account of the Council's assurance and monitoring mechanisms, including risk management arrangements, for achieving the Council's objectives.</p> <p>The Internal Audit Plan is based on the Corporate Risk Register and identifies Internal Audit's contribution to the review of the effectiveness of the control environment. The process includes reports to the Audit Committee on progress of audits. Regular summaries are also produced of the outcome of each audit, together with reviews of whether agreed recommendations have been implemented. Internal Audit provides an annual opinion on the internal control environment and issues that should be included in this Statement.</p> <p>There is a requirement for internal audit to undertake an annual self assessment and independent external assessment every five year. Any areas of non-conformance must be reported as part of their annual</p>

report and opinion. In the light of feedback we have concluded that internal audit is an effective part of the Council's governance arrangements.

7. Significant Governance Issues

7.1 The Council faces a number of issues and areas of significant change that will require consideration and action as appropriate over the coming years and these are:

- **Partnership working** – ensuring that the Council maintains adequate governance arrangements for effective partnership working.
- **Capacity to deliver projects** - ensuring that the Council has sufficient and appropriately qualified staff to deliver its programme of projects while maintaining frontline services to residents and businesses.
- **Procurement and contract management** - ensuring that the Council maintains a comprehensive, publicly accessible contract register, following its own financial and contract procedure rules.

8. Assurance Summary

8.1 Good governance is about operating properly. It is the means by which the Council shows that it is taking decision for the good of its residents, in fair, equitable and open way. It also requires standards of behaviour that support good decision making – collective and individual integrity, openness and honesty. It is the foundation for the effective delivery of good quality services that meet the needs of the users. It is fundamental to demonstrating that public money is well spent. Without good governance, the Council would find it difficult to operate services successfully.

8.2 The Internal Audit Opinion for 2018/19 is that the Council's framework of governance, risk management and management control is 'adequate' and that audit testing carried out during the year has demonstrated controls to be working in practice.

8.3 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 during the year and as part of our next annual review.

Signed:

Signed:

Laura Taylor
Chief Executive
Winchester City Council

Councillor L. Thompson
Leader of the Council
Winchester City Council

Dated:

Dated:

Annual Governance Statement 2018/19 – Action Plan

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No.	Issue	Actions	Lead Officer	Target Date	Method of Assurance
1	Partnership working – the need to ensure that the Council maintains effective partnership working	Annual report covering the performance of key partnerships scheduled to be considered at The Scrutiny Committee.	Corporate Head of Engagement	September 2019	Progress report to Scrutiny Committee
		Review of partnership working included in the Internal Audit plan 2019/20	Corporate Head of Engagement	December 2019	Internal Audit Report and opinion
2	Capacity to deliver projects – ensuring that the Council has sufficient and appropriately qualified staff to deliver its programme of projects	Ensure regular project monitoring reports are considered by the Programme Management Group and that capacity issues are highlighted and remedial action agreed	Strategic Director: Resources	Ongoing	Published monitoring reports
		Ensure that all significant projects follow the arrangements as set out in the Project Governance Policy highlighting requests for additional resources where required.	Strategic Director: Resources	December 2019	Internal Audit Report and opinion
		Internal Audit scheduled to take place during 2019/20 covering Programme and Project Management which will review compliance in relation to live/ ongoing projects.	Strategic Director: Resources	December 2019	Internal Audit Report and opinion
		Maintain and embed into the organisation membership of the Association for Project Management (APM) to promote further consistency of project management across the council	Corporate Head of Strategic Support	September 2019	Ongoing
3	Procurement and Contract Management – ensuring that the Council	Ensure that a comprehensive contract register of all contracts over £5,000 is maintained and available to the public.	Procurement Manager	Ongoing	Published Contract Register

No.	Issue	Actions	Lead Officer	Target Date	Method of Assurance
	maintains a comprehensive, publicly accessible contract register, following its own contract procedure rules.	Review of platform for publication of public contract register to ensure that it is easy for staff to update and maintain.	Procurement Manager	December 2019	Internal Report and opinion
		Internal Audit scheduled for later in 2019 to ensure that the Council follows its own Contract Procedure Rules as set out in the updated Constitution and is conforming to relevant contract management legislation.	Service Lead (Procurement & Transformation)	Ongoing	Training to be included as part of the corporate training programme Internal audit review and report

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REPORT TITLE: ANNUAL FINANCIAL REPORT 2018/19

25 JULY 2019

REPORT OF CABINET MEMBER: Cllr Neil Cutler, Deputy Leader and Cabinet Member for Finance and Risk

Contact Officer: Liz Keys Tel No: 01962 848226 Email LKeys@winchester.gov.uk

WARD(S): ALL

PURPOSE

This report presents the audited Annual Financial Report 2018/19 which includes:

- a narrative statement (for noting);
- the audited Statement of Accounts for the year ended 31 March 2019 (for approval); and
- The Annual Governance Statement (being considered elsewhere on this agenda in report AG011).

Legislation requires the Statement of Accounts to be approved by Members by the 31st July 2019. Audit Committee has delegated powers to review and approve the annual Statement of Accounts. The Committee has specific responsibility to consider the appropriateness and application of accounting policies and whether there are any concerns arising from the financial statements' audit.

Elsewhere on the agenda the External Auditors have presented their Annual Results Report which includes a proposed unqualified opinion (AG010). Due to the new condensed timetable for auditing the financial statements, the audit is still underway at the time of writing this report. The version of the accounts appended to this report may be subject to change if the audit identifies any material misstatements prior to the committee meeting.

It is important that Members have considered the key issues contained in the Accounts. Members have had the opportunity to raise any queries regarding the Financial Statements in the period since the pre-audit accounts were issued in May and are once again requested to raise any matters of detail with the Finance Manager (Financial Reporting) in advance of the meeting.

RECOMMENDATIONS:

1. That Audit Committee approves the Statement of Accounts 2018/19 as set out in Appendix 1.
2. That the Chairman of this meeting signs the Statement of Responsibilities on page 22 of Appendix 1 to certify the accounts and authorise their issue.

IMPLICATIONS:

1 COUNCIL STRATEGY OUTCOME

- 1.1 The preparation of the Annual Financial Report is fundamental to the requirement for accountability for public finances. Ensuring that there is strong financial reporting and stewardship of public funds underpins the Council's ability to delivery the outcomes of the Council Strategy.

2 FINANCIAL IMPLICATIONS

- 2.1 None

3 LEGAL AND PROCUREMENT IMPLICATIONS

- 3.1 The Regulation of the Accounts and Audit Regulations require an authority to conduct a review at least once a year of the effectiveness of its system of internal control and include a statement reporting on the review with any published Statement of Accounts.
- 3.2 Local authorities in the UK are required to keep their accounts in accordance with 'proper (accounting) practices', being the Code of Practice on Local Authority Accounting in the United Kingdom 2018/19. The Code specifies the principles and practices of accounting, required to prepare financial statements that annually give a true and fair view of the financial position and transactions of a local authority.
- 3.3 The necessity to confirm with these Regulations and the Code is recognised accurately in this report.
- 3.4 There are no direct legal implications. Where further work is required to respond to the issues identified, any additional legal resources required to implement identified improvements will be raised separately or through the budget process.

4 WORKFORCE IMPLICATIONS

- 4.1 None

5 PROPERTY AND ASSET IMPLICATIONS

- 5.1 None

6 CONSULTATION AND COMMUNICATION

- 6.1 None

7 ENVIRONMENTAL CONSIDERATIONS

- 7.1 None

8 EQUALITY IMPACT ASSESSEMENT

8.1 None

9 DATA PROTECTION IMPACT ASSESSMENT

9.1 None

10 RISK MANAGEMENT

Risk	Mitigation	Opportunities
<i>Legal</i> Failure to meet the statutory deadline for publication of the unaudited accounts.	A comprehensive set of working papers was produced in advance of the external audit and an effective plan for the efficient transfer of information and update meetings was agreed with the audit team.	None
<i>Reputation</i> The accounts are qualified by external audit as being materially misstated.	The accounts are prepared in accordance with the CIPFA Code of Practice and are both planned and reviewed using the CIPFA Disclosure Checklist. Early communication / agreement of accounting treatment with external auditors.	None

11 SUPPORTING INFORMATION:

11.1 The financial statements have been subject to external audit by Ernst and Young LLP (EY). In accordance with the statutory requirements, it is planned that the audited Statement of Accounts will be published, together with the auditor's opinion, Narrative Statement and Annual Governance Statement, by the 31st July 2019.

11.2 EY are still conducting the audit at the time of writing this report. Should the audit identify any material errors or misstatements, the final accounts brought to Committee for approval may differ from those appended to this report.

11.3 Since the preparation of the pre-audit Statement of Accounts and its publication in May, a number of adjustments have been agreed with the auditors. In addition to some rounding adjustments and formatting corrections the following has been amended:

- a) Pensions accounting for the McCloud Judgement
A contingent liability was included in the pre-audit Statement of Accounts to detail the impact on public sector pension schemes of the ruling on transitional protection arrangements. On 27th June the Supreme Court refused the Government's application to appeal the decision in the discrimination case. As a result of this decision, the impact on the Local Government Pension Scheme became more certain so the Council requested that the Hampshire Pension Fund actuary provide an estimate of the increase in the Council's liability.

The Actuary used assumptions on a 'worst case' scenario to calculate the potential impact as 3.2% of the Council's active liabilities as at 31 March 2019. This equates to an increase of £1.9m. As this value exceeds the auditors' performance materiality threshold it was agreed that the accounts will be adjusted. The impact of this can be seen as:

- an increase in *Organisational Management* costs in the Comprehensive Income and Expenditure Account;
- an increase in the *HRA share of Corporate and Democratic Core* costs in the HRA Income and Expenditure statement;
- a revised *Adjustments between Accounting Basis and Funding Basis under Regulations* in the Movement in Reserves Statement (and note 6);
- increased *Pension Scheme Liability* and reduced *Unusable Reserves* on the Balance Sheet
- changes to Pension Fund adjustments in the Cash Flow Statement and Expenditure and Funding Analysis; and
- updated disclosures in note 22 (defined benefit pension schemes)

11.4 Unadjusted audit differences

Following the publication of the pre-audit accounts two errors in the valuation of the Property, Plant & Equipment (PPE) assets were identified by the Finance team. These errors were brought to the attention of the auditors but as they were not material they have not been adjusted in the audited accounts – further detail on the issues is as follows:

- a) Under-valuation of dwelling assets by £540,000 (in relation to 6 new properties, completed during 2018/19). The total value of PPE assets is £496m so this understatement of dwellings represents 0.1% of the balance sheet value.
- b) Over-valuation of open space land at Chilcomb Sports Ground. This asset was donated to the Council during 2018/19 and the valuation at the year end was overstated by £410,000. This represents less than 0.1% of the total value of PPE assets.

- c) The net effect on the Council's balance sheet of these two errors is an understatement of £130,000.

11.5 Approval of the Statement of Accounts

The Statement of Accounts has been prepared in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the Code) and any subsequent Local Authority Accounting Panel (LAAP) recommendations.

The Council's Statement of Accounts will be signed, prior to the Committee meeting, by the *Corporate Director: Resources*, in his capacity as Section 151 Officer, to certify that they give a true and fair view of the financial position of the Council as at 31 March 2019.

In addition, the Chairman of the Audit Committee is required to sign the Statement of Accounts to certify that they have been approved by a resolution of the Audit Committee and that they are authorised for issue.

12 OTHER OPTIONS CONSIDERED AND REJECTED

12.1 None

BACKGROUND DOCUMENTS:-

Previous Committee Reports:-

[AUD229](#) – Planning for and Audit of the 2018/19 Accounts (7 March 2019)

Other Background Documents:-

None

APPENDICES:

Appendix 1 – Annual Financial Report for the Year Ended 31 March 2019

FOR THE YEAR ENDING 31 MARCH 2019

ANNUAL FINANCIAL REPORT

(PRE-AUDIT)

THE STATEMENT OF ACCOUNTS IS UNAUDITED AND IS SUBJECT TO CHANGE.



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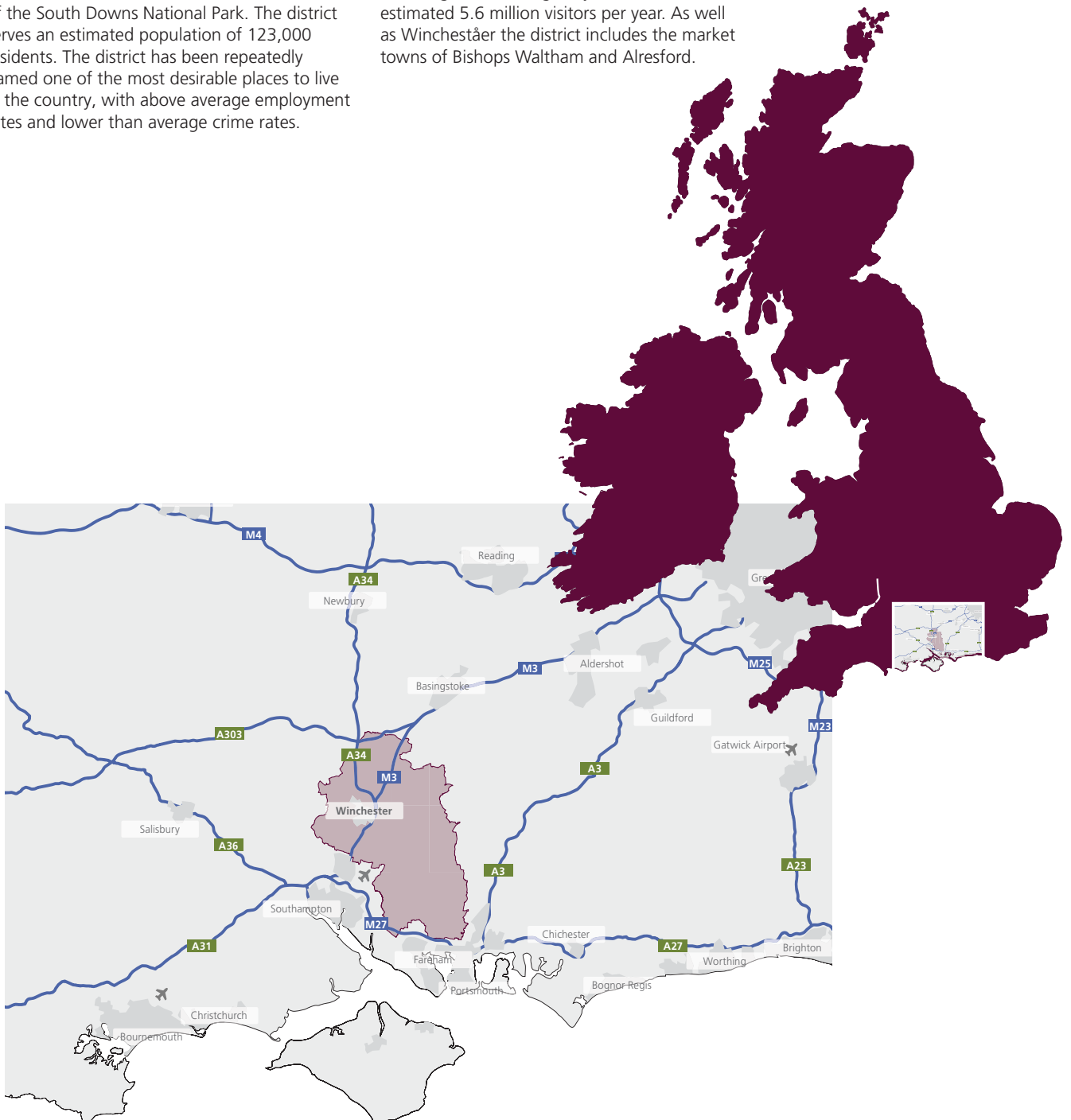
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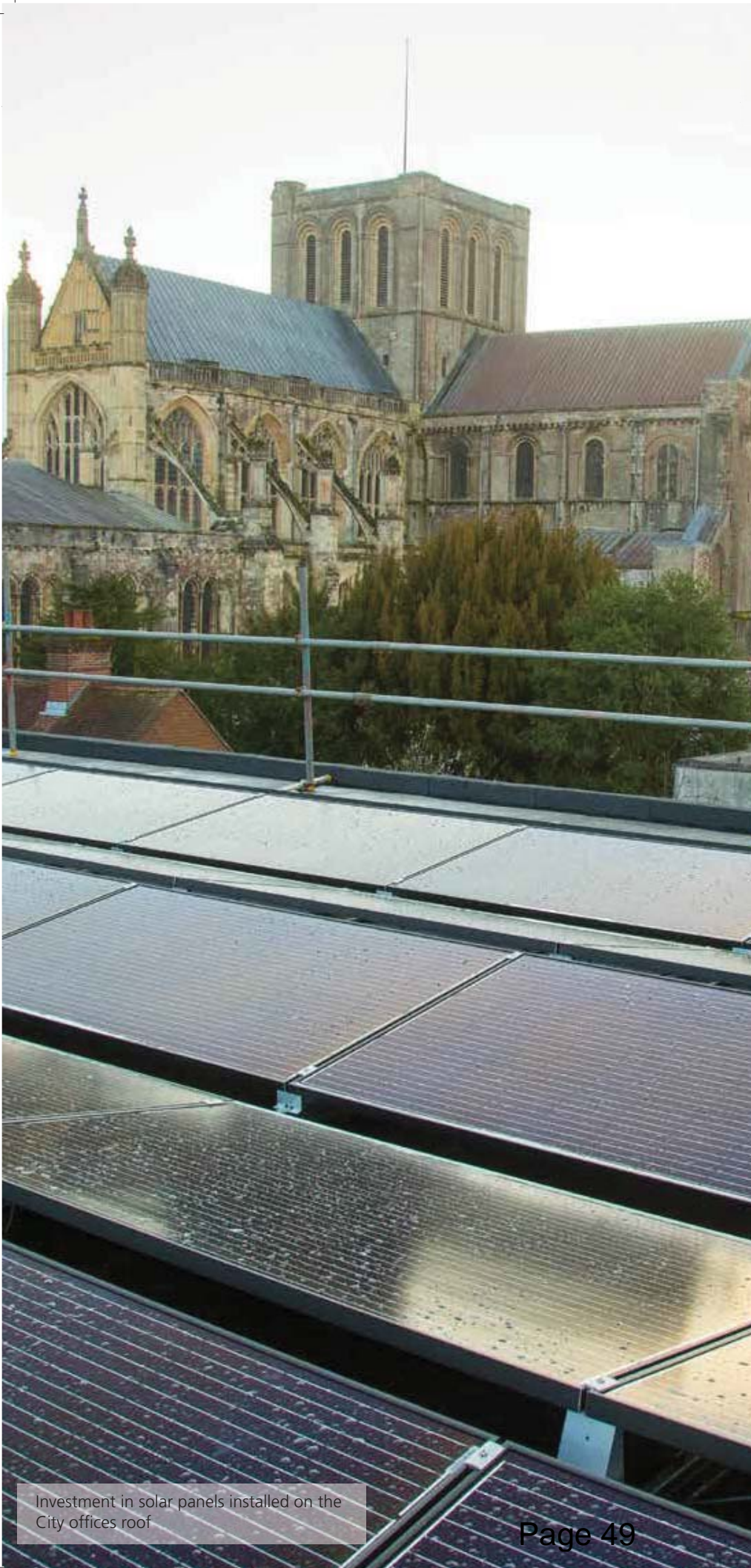
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ABOUT THE COUNCIL

The Winchester district spans 250 square miles of central Hampshire with a substantial part of the district situated within the western end of the South Downs National Park. The district serves an estimated population of 123,000 residents. The district has been repeatedly named one of the most desirable places to live in the country, with above average employment rates and lower than average crime rates.

Winchester is the county town of Hampshire and lies in the heart of the district. Winchester is a designated heritage city and attracts an estimated 5.6 million visitors per year. As well as Winchester the district includes the market towns of Bishops Waltham and Alresford.





Investment in solar panels installed on the City offices roof



Life expectancy for men is higher than the UK average (79.5 years) at 82 years. On average women in Winchester live more than two years longer than in the rest of the UK (85.3 years against 83.2 years).



Over 50% of the working age population have a qualification at level four or higher.



Residents enjoy access to great open space and countryside with 40% of the district lying in the South Downs National Park.



Employment at 83.1% is significantly higher than the national average.



A higher proportion (96.6%) of residents report being in good or fairly good health compared to the national average of 94.6%.



Great employment prospects with 31.6% more jobs in the district than resident workers.



Wintonians are among the happiest, satisfied, content and the least anxious people in the UK, scoring highly in the Personal Well-Being Survey (Office for National Statistics).



We benefit from crime rates among the lowest in the country, with a burglary rate of 11.5 per 10,000 people compared to an average of 28.7 for the rest of the UK.

ORGANISATION

MEMBERS	EMPLOYEES	PARTNERSHIP
<p>45 Councillors, 16 wards</p> <p>The political make-up of the Council is:</p> <p>Liberal Democrat 28 Councillors; Conservative 17 Councillors;</p> <p><small>*following the elections in May 2019</small></p>	<p>478 employees (423 F/T equivalents) Chief Executive, 4 Strategic Directors, 8 Corporate Heads/Programme Leads</p> <p>Just under 2/3 of the council workforce is female.</p>	<p>Shared Information Management and Technology (IMT) service with Test Valley BC, partnership with East Hampshire DC to provide environmental services</p> <p>Hampshire County Council provide internal audit and treasury management service.</p>

A two tier system of Local Government operates in this part of the county, whereby Hampshire County Council provides public services (such as social care; education and highways) and district councils are responsible for the provision of a number of other services such as waste and recycling. A list of services the council provides is shown below.

Services are split into 3 directorates each led by a Strategic Director under the Directorate Heading

ORGANISATION - 3 DIRECTORATES		
RESOURCES	SERVICES	PLACE
HR	Waste and recycling collections	Major projects
IMT	Housing	Tourism and leisure
Financial services	Planning	Economy and arts
Payroll	Parking	Health and wellbeing
Revenues	Welfare and benefits	Asset management

Most council employees are based in Winchester at the civic offices or at the Bar End depot. The delivery of services is overseen by committees led by Members

The council has adopted the Leader and Cabinet model as its political structure. This means that a councillor is appointed as leader of the executive and is then responsible for appointments to the Cabinet, allocation of portfolios and the delegation of executive functions. A Mayor is also elected by councillors each year to represent the council at civic events and to raise funds for the Mayor's nominated charities. The management of the council is led by the Chief Executive supported by four Strategic Directors.

There are Cabinet Members for

- Communications and transformation
- Finance and risk
- Environment
- Built environment and wellbeing
- Housing and asset management
- Sport, leisure and communities
- Local economy

COUNCIL STRATEGY

THE OVERARCHING VISION OF WINCHESTER CITY COUNCIL IS TO COMBINE A BLEND OF **INNOVATION, ASPIRATION** AND **PRAGMATISM** WHEN DELIVERING LOCAL SERVICES, **LOOKING BEYOND THE TRADITIONAL WAYS OF DOING THINGS.**

The council's overarching vision is set out in its strategy which is available in full on its website and outlines how the council will deliver its vision up until 31 March 2020.

We are committed to:

- Making the district a premier business location
- Developing quality housing with a balanced range of tenures
- Protecting and enhancing our unique environment
- Delivering services that encourage residents to lead healthy and fulfilling lives.



Completed homes at Abbotts Barton

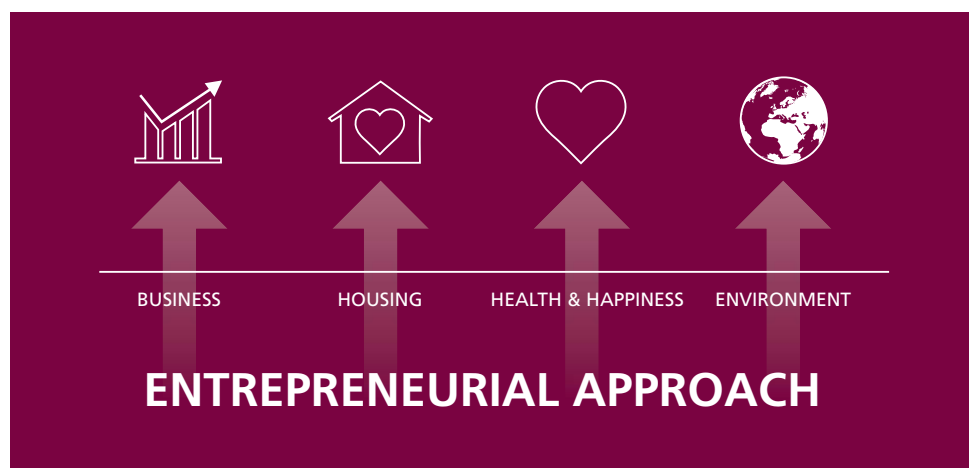


Enabling home ownership via the Partnered Home Purchase scheme



Completed homes at Ashburton Road

2017-18 was the first year of the new Council Strategy. This strategy sets out the five key outcomes for the council, including the delivery of services through an entrepreneurial approach.



FINANCIAL OUTLOOK

Financial challenge

We are in one of the most challenging financial times faced by the council. Since 2010 government has reduced funding for local government as part of measures to reduce the national deficit. There is further uncertainty as the government is undertaking a fair funding review which will set a new baseline funding allocation for local authorities by undertaking an updated assessment of relative needs and resources.

The outcomes of the review are planned to be updated in 2021. The method of government funding has also changed, with centralised grant funding being phased out and replaced with increased business rate retention. In addition the performance of the global economy and Brexit add further uncertainty could also present implications for public finances.

Medium term financial planning

The council projects its finances over the medium term in order to make sure it is in a sustainable position to deliver essential public services and finance the delivery of its corporate plans.

A combination of falling funding and inflationary pressures and the upfront costs of major capital schemes means that the council faces a forecast funding gap of about £2.5 million by 2021.



Completed homes at Victoria Court

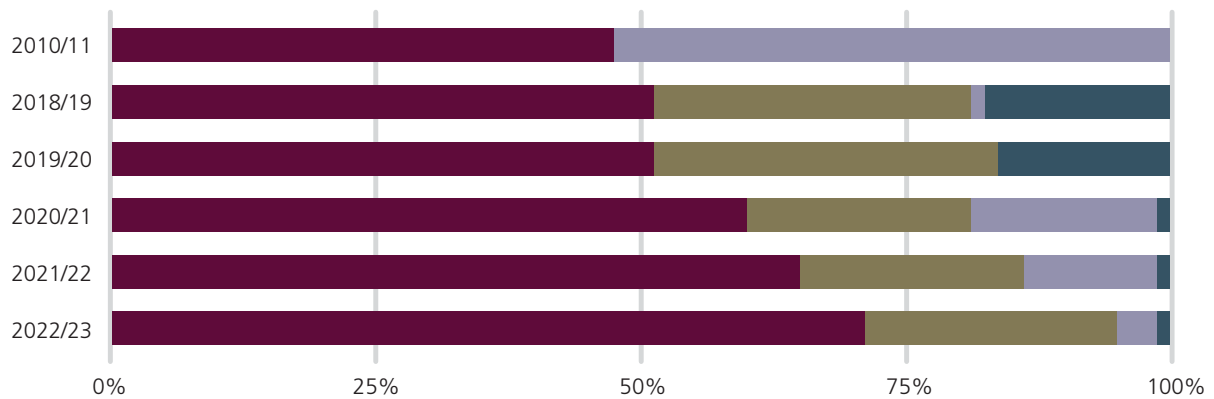
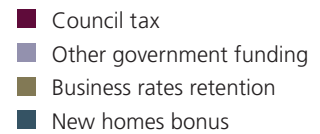


Victoria Court home

REDUCED FUNDING PUTS INCREASED PRESSURE ON THE DELIVERY OF SERVICES

TO RESPOND SUCCESSFULLY WE WILL NEED TO DELIVER SERVICES DIFFERENTLY GOING FORWARD

The new strategy is driven by the need to refresh our approach and focus on council activities and also reflects a shift in the approach to public services in light of significant funding reductions.



The council faces some significant challenges in the longer term:

- The removal of government funding
- Significant policy changes
- The move to greater business rates retention presents opportunities as well as increased volatility and risks
- Responding to changing customer demand and expectation in a rapidly changing digital environment
- Delivering a new local economic strategy

The council's approach is supported by outcome based budgeting

OUTCOME BASED BUDGETING (OBB)

The council has successfully met its savings target of over £1 million in 2018/19 and identified planned savings of another £1 million in 2019/20. To meet the potential funding gap of £2.5m in 2020/21, the council will outline its outcome based budgeting process.

Efficiency savings

This strand of the OBB process is aimed at looking in detail at internal processes and ensuring these support the council in delivering excellent services in the most effective way. Contract review and management is a key element in this strand, as the council operates a number of significant ongoing contracts.

Asset management

The council operates an extensive portfolio of assets which are either used in the delivery of services or to generate income resources for service delivery. Making the best use of assets can provide savings as well as increasing collaboration with other organisations.

An extensive programme of refurbishment works is underway at the council's city offices in order to extend the life of the building, provide environmental enhancements in the form of lower energy consumption, and to ensure the offices remain fit for purpose.

This year has seen the modernisation of customer reception areas, improvements include providing two payment kiosks and fast-track payment options including contactless transactions designed to make it easier and quicker for local customers to deal with the council.

In 2018/19 the council transferred over 400 Housing Revenue Account (HRA) garages to the General Fund. While priority is currently offered to council tenants, garages are available to all residents and make no contribution to the delivery of the council's statutory housing responsibilities. Garages do generate significant rental income and appropriating garages to the General Fund will also have the combined advantage of providing a source of annual income to the General Fund whilst also increasing the HRA's capital funding resources.

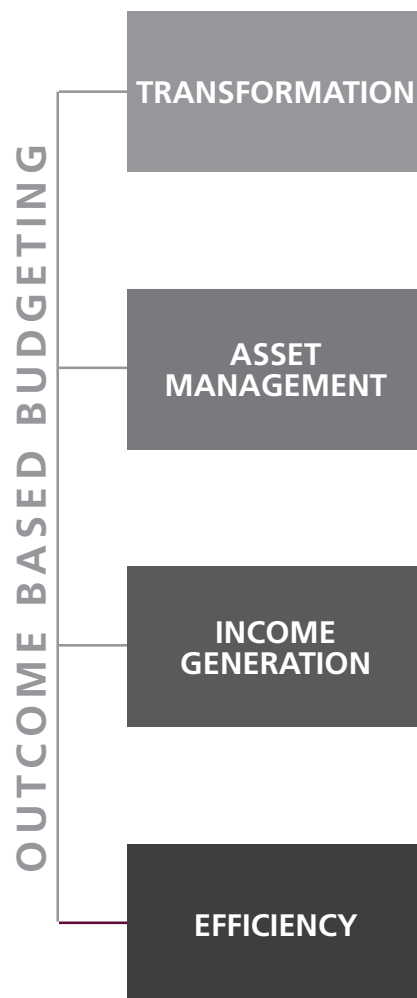
Income generation

General fund income is planned to fund approximately 40% of gross general fund expenditure. In order to continue delivering services consideration of full cost recovery is an important principle to be considered. This ensures the user of these services is paying a fair price, that the services remain available, and that there is no unnecessary burden on the council tax payer.

Transformation

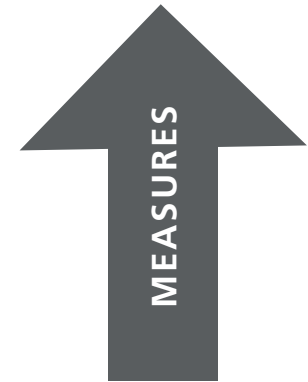
The council continues to explore ways of transforming both operations and service delivery in order to generate efficiencies wherever possible. The core principle is delivering services in the most efficient way in order to achieve value for money. The council is using technology to 'go paperless'. The council can reduce the amount of paper printing, and reduce costs, by shifting to portable technology. The council has already introduced a paperless system to all councillors for committee meetings, saving on the amount of paper required and reducing printing and postage costs.

It is also important that the council is reviewing other options to transform services and offer different solutions. One area under consideration is setting up a housing company to provide a different housing offer to residents and that also provides a financial benefit to the council.



2018/19 GENERAL FUND BUDGET

The council budget is strongly aligned to the council strategy. The council manages its General Fund and HRA budgets separately. The General Fund budget included areas of significant investment to deliver new services to residents. This investment is supported through a variety of savings programmes. These items have been carefully considered and seek to enable the council to continue to deliver its core services and protect our valued frontline delivery while matching the financial demands of reducing government funding.



GENERAL FUND BUDGET PRESSURES

- £1m**
Central gov't funding
- £0.9m**
Inflationary pressures
- £0.4m**
Additional service investments

MEASURES TAKEN TO BALANCE BUDGET

- +£0.3m**
Increase in council tax by 2.9%
- +£0.6m**
Business rate growth
- +£1.1m**
Efficiency savings
- +£0.2m**
Increased investment income



2018/19 OUTTURN

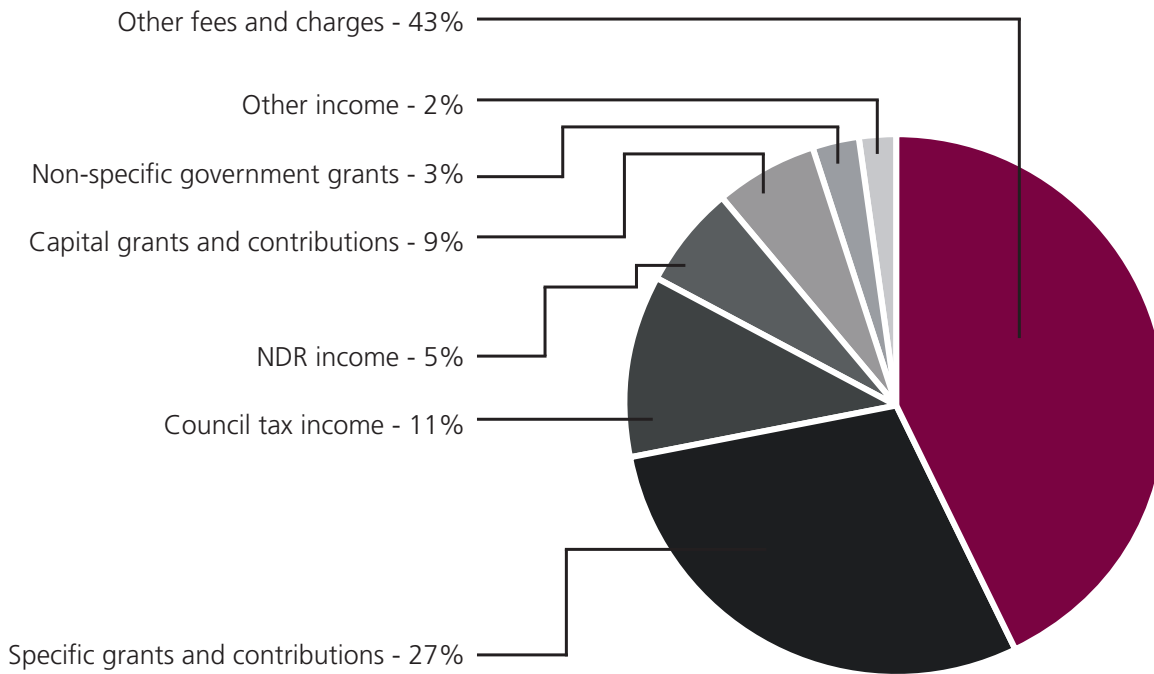
Higher than budgeted grant funding and taxation income and in-year underspends relating to slippage on major projects has resulted in a net increase of £2.1m to the council's usable reserves and planned usage of £2.7m reserves deferred.

SERVICE	NET CONTRIBUTION	OUTTURN	VARIANCE
	£'000	£'000	£'000
HOUSING	1,895	1,520	(375)
ENVIRONMENT	4,525	3,313	(1212)
HEALTH & HAPPINESS	2,220	2,786	566
BUSINESS	1,701	1,597	(104)
OPERATIONAL DELIVERY	4,211	3,556	(655)
INVESTMENT ACTIVITY	(2,052)	(2,533)	(481)
ORGANISATIONAL MANAGEMENT	4,334	3,989	(345)
	16,834	14,228	(2,606)
TAX & GRANT INCOME	(14,511)	(15,746)	(1,235)
FINANCING & TREASURY ACTIVITY		(911)	(911)
RESERVE RELATED MOVEMENTS	(2,325)	1,433	3,758
TOTAL FUNDING	16,836	15,224	1,612
TRANSFER TO MAJOR INVESTMENT RESERVE			(1,994)

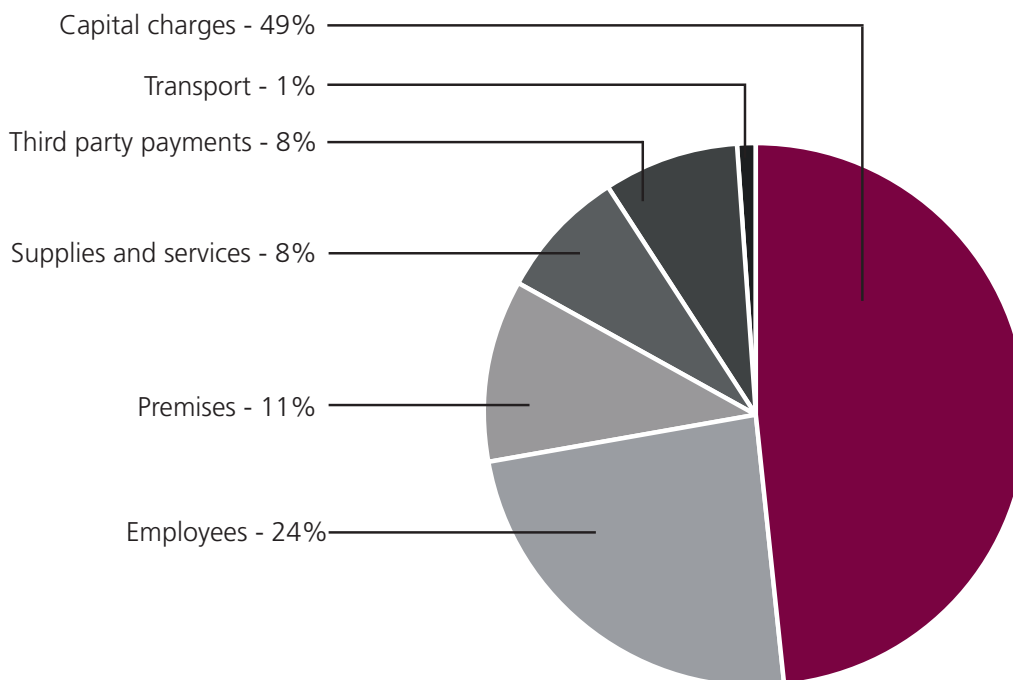
The HRA outturn position shows an increase in the HRA balance of £2.5m. The increase is caused by slippage in the HRA capital programme, meaning that a planned £5.5m of revenue financing has not been required in 18/19. The other major outturn variance is an increase in the amount transferred to the major repairs reserve. This is a sum equal to depreciation and the increase is caused by changes to the assumptions supporting the estimate.

SERVICE	BUDGETTED NET EXPENDITURE	OUTTURN	VARIANCE
	£K	£K	£K
HOUSING MANAGEMENT	5,928	6,341	413
REPAIRS	5,031	5,468	437
RENTS & OTHER INCOME	(27,530)	(27,387)	143
EXTERNAL INTEREST PAYABLE	5,200	5,182	(18)
TRANSFER TO MAJOR REPAIRS RESERVE	6,044	8,358	2,314
CAPITAL EXPENDITURE FUNDED BY HRA	5,550	0	(5,550)
NET OTHER ACCOUNTING ADJUSTMENTS	25	(474)	(499)
INCREASE / DECREASE IN HRA BALANCE	248	(2,512)	(2,760)

WHERE THE COUNCIL'S FUNDING CAME FROM



HOW THE COUNCIL SPENT MONEY TO PROVIDE SERVICES (EXCLUDING PAYMENTS OF BENEFITS)



THE COUNCIL'S BALANCE SHEET

The council's balance shows it has a net worth of £364m.

Total assets of £604m at the balance sheet date include:

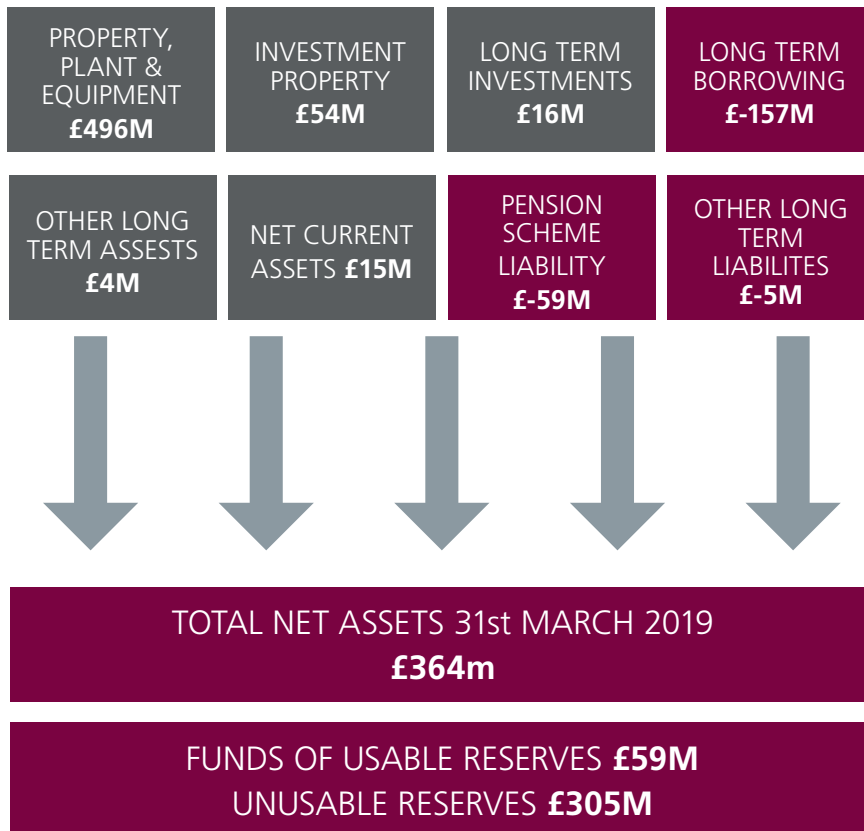
- Council dwellings £405m
- Other operational land and buildings £76m;
- Investment property £54m.

Total liabilities of £239m include:

- Long term borrowing of £157m
- The pension scheme potential future liability of £59m.

The Council's balance sheet includes £59m of usable reserves available to fund future spending plans and programs.

The overall £17m decrease in the Council's net worth in the financial year is primarily as a result of movements in the property market which has reduced the value of the Council's housing stock.



Investing in health and wellbeing - Iwan Thomas opening new play areas



Purchase of Friarsgate medical centre for refurbishment



Sport & Leisure Park planning now recommended for approval

2018/19 CAPITAL OUTTURN

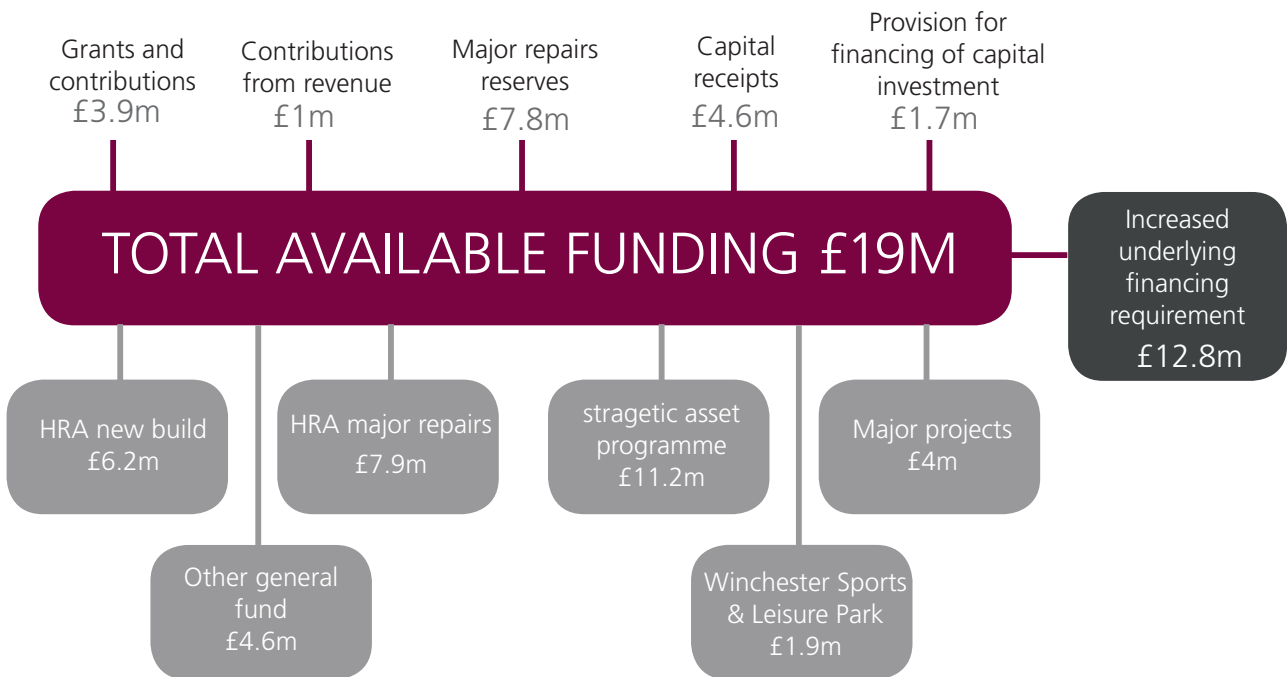
Capital

The council has an ambitious capital programme with a number of major projects being undertaken. The original capital budget in 2018/19 was greater than £66m. Actual outturn is £31.8m because of project slippage and expenditure will be re-profiled into future years.

The council has spent £11.2m on its strategic asset purchase scheme. The purchases of Coventry House, Friarsgate Medical Centre and 158-165 High Street were completed in year. The purchases give the council more scope to deliver its vision for the regeneration of central Winchester.

Just over half of the 2018/19 Capital programme was financed by existing resources, £12.8m has been added to the council's underlying capital financing requirement.

Capital Expenditure and finance



CHESIL LODGE

Key Projects

Much of the council's strategic aims is delivered through capital spend and associated projects and include the provision of new housing, major regeneration schemes and the provision of new leisure facilities. Key projects that have been delivered or are in progress are set out below.

Chesil Lodge

A new state-of-the-art £16m development specially created to help older residents with care needs live independently was completed in 2018. Chesil Lodge offers 52 extra care apartments for rent, shared ownership and sale – to cater for residents over the age of 55. The scheme was funded by Winchester City Council, Hampshire County Council, Homes England and a gift from the late Winchester-born resident Harold Harris. The idea behind the project is the concept of extra care which provides people with their own individual apartment, coupled with access to communal spaces, in modern, high-quality, attractive buildings, close to local facilities. The development is a mixture of one-bedroom and two-bedroom apartments that are designed for independent living. The development also offers an excellent range of communal facilities, including a restaurant, laundry, treatment rooms and lounges.





WINCHESTER SPORT & LEISURE PARK

River Park Leisure Centre is now more than 40 years old and its capacity to meet the needs of a growing population in Winchester is limited. The council has looked at various options for replacing or refurbishing it and has decided that the preferred option, if it remains affordable and deliverable, is to build a new leisure centre at Bar End. A new sport and leisure centre at this location will cost in the region of £38 million. The council and its lead architects, carried out extensive

consultation with local residents, sports groups, experts, national government bodies and Sport England to shape and inform the planning application which was submitted in June 2018. Construction commenced at the end of the 2018/19 financial year, with completion due in 2021. The council is working with a number of partners to deliver the new Sport & Leisure Centre including the University of Winchester, the Pinder Trust and Hampshire County Council.



SAXON GATE

Saxon Gate is an area of central Winchester set for transformation. This exciting project is an opportunity to bring positive change to the city centre by delivering a dynamic mix of uses which will create a vibrant new retail, cultural and heritage heart set within an exceptional public realm. Significant progress has already been made with this redevelopment project and is moving forward with proposals to revitalise the area. Work has commenced on breathing a new lease of life to existing spaces and

building for short-term uses, before the wider regeneration of the area begins. The transformation of Saxon Gate will provide an opportunity for retailers, located next to an already thriving High Street and a stone's throw away from the historic heart of Winchester.



STATION APPROACH

The Station Approach project covers the space around the railway station, extending north to include the Cattle market site and south to the Carfax site. There is considerable potential to improve the area's role as a gateway to the city and to boost Winchester's economy.

The site within the development area will create a vibrant new business hub adjacent to the station, providing 140,000 sq ft of Grade A office space in an easily accessible location. As well as state-of-the-art offices, a vibrant mix of bars, restaurants and retailers will make the area a destination of choice.



SUMMARY

The financial report contains a number of key figures that set out how the council has managed the financials and activities during 2018/19. Effective financial management and delays in the capital programme have seen council usable reserves increase. The council's overall net worth has decreased by £17m primarily because of movements in the property market.

The council has met its financial targets for 2018/19 and continues to progress the delivery of strategic outcomes, including the delivery of the award winning Chesil Lodge extra care facility.

The council is aware that tough financial times remain ahead, and continues to plan its finances over the medium term so that it remains able to deliver its essential services and strategic outcomes.



WINCHESTER CITY COUNCIL STATEMENT OF ACCOUNTS 2018/19
STATEMENT OF RESPONSIBILITIES FOR THE STATEMENT OF ACCOUNTS

The Council's Responsibilities

The Council is required to:

- make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this Council, that officer is the S151 Officer;
- manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets; and
- approve the Statement of Accounts.

The Responsibilities of the S151 Officer

The S151 Officer is responsible for the preparation of the Council's Statement of Accounts in accordance with proper practices as set out in the CIPFA/LASAAC *Code of Practice on Local Authority Accounting in the United Kingdom* (the Code).

In preparing this Statement of Accounts, the S151 Officer has:

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

The S151 Officer has also:

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

I certify that the Statement of Accounts gives a true and fair view of the financial position of Winchester City Council as at 31 March 2019 and its income and expenditure for the year then ended.

Signature: Date: 25 July 2019

Joseph Holmes
Strategic Director (Resources), Section 151 Officer

I certify that the Statement of Accounts for the year ended 31 March 2019 has been approved by a resolution of the Audit Committee at its meeting on the 25 July 2019, and is authorised for issue.

Signature: Date: 25 July 2019

Councillor Neil Cutler
Chair of the Audit Committee

WINCHESTER CITY COUNCIL STATEMENT OF ACCOUNTS 2018/19
COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT FOR THE YEAR ENDED 31 MARCH 2019

This statement shows the accounting cost to the Council in the year for the provision of services in accordance with International Financial Reporting Standards (IFRS) adapted by the Code of Practice on Local Authority Accounting (the Code). The Total Comprehensive Income and Expenditure Statement represents the total movement on net assets in the Council's Balance Sheet.

The statement includes some costs and income that are not allowed, by statute, to be funded from taxation. The Comprehensive Income and Expenditure Statement is adjusted for these items in order to set the level of Council Tax. These adjustments are shown in the Movement in Reserves Statement, and analysed in Note 6.

2017/18			2018/19			
Expenditure £000	Income £000	Net £000		Expenditure £000	Income £000	Net £000
1,929	(222)	1,707	Business	1,901	(219)	1,682
14,107	(9,615)	4,492	Environment	13,983	(10,096)	3,887
3,640	(372)	3,268	Health and Happiness	4,083	(506)	3,577
			Housing Strategy & Homelessness			
2,716	(123)	2,593	Delivering Quality Housing (HRA)	3,230	(336)	2,894
17,874	(29,100)	(11,226)	Operational Delivery	21,260	(28,805)	(7,545)
35,242	(28,152)	7,090	Organisational Management	34,853	(26,765)	8,088
4,823	(581)	4,242	Cost of service delivery	6,064	(336)	5,728
80,331	(68,165)	12,166	HRA Property Revaluation (Note 1)	85,374	(67,063)	18,311
(25,796)	0	(25,796)	Cost Of Services	32,850	0	32,850
54,535	(68,165)	(13,630)		118,224	(67,063)	51,161
		567	(Surplus)/Deficit on Trading Accounts			472
		2,863	Other Operating Income and Expenditure			
		763	Parish Council Precepts			3,091
		(1,556)	Payments to the Government Housing Capital Receipts Pool			779
			(Gains)/Losses on the Disposal of Non Current Assets			(2,352)
			Financing and Investment Income and Expenditure			
		5,183	Interest Payable and Similar Charges (Note 11)			5,176
		1,430	Net Interest on the Net Defined Benefit Liability (Note 22)			1,570
		(735)	Interest Receivable and Similar Income (Note 11)			(660)
		(3,225)	Income and Expenditure in relation to Investment Properties and Changes in their Fair Value (Note 10)			(5,811)
		0	Changes in the Fair Value of Investments (Note 11)			(84)
			Taxation and Non-Specific Grant Income			
		(4,051)	Non-Domestic Rates Income and Expenditure (Note 18)			(5,266)
		(3,480)	Non-Ringfenced Government Grants (Note 18)			(2,729)
		(5,616)	Capital Grants and Contributions (Note 18)			(8,531)
		(10,031)	Council Tax Income			(10,713)
		(31,518)	(Surplus) or Deficit on Provision of Services			26,103
		(2,926)	Other Comprehensive (Income) and Expenditure			
		(202)	(Surplus)/Deficit on Revaluation of Non Current Assets			(652)
			(Surplus)/Deficit on Revaluation of Available for Sale Financial Assets			0
		3,330	Re-measurements on the Net Defined Benefit Liability (Note 22)			(5,780)
		(31,316)	Total Comprehensive (Income) and Expenditure			19,671

WINCHESTER CITY COUNCIL STATEMENT OF ACCOUNTS 2018/19
MOVEMENT IN RESERVES STATEMENT FOR THE YEAR ENDED 31 MARCH 2019

This statement shows the movement in the year on the different reserves held by the Council. These are analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation) and 'unusable reserves'. The (Surplus) or Deficit on the Provision of Services line shows the true economic cost of providing the authority's services, more details of which are shown in the Comprehensive Income and Expenditure Statement. These are different from the statutory amounts required to be charged to the General Fund and the Housing Revenue Account (HRA) for Council Tax setting and dwellings rent setting purposes. The Net (Increase)/Decrease before Transfers to Earmarked Reserves line shows the statutory General Fund balance and HRA balance before any discretionary transfers to or from earmarked reserves.

	General Fund Balance £000	Earmarked General Fund Reserves £000	Housing Revenue Account £000	Earmarked HRA Reserves £000	Major Repairs Reserve £000	Capital Receipts Reserve £000	Capital Grants Unapplied £000	Total Usable Reserves £000	Unusable Reserves £000	Total Authority Reserves £000
Balance at 31 March 2018 Brought Forward	(2,790)	(23,366)	(9,116)	(70)	(14)	(14,366)	(607)	(50,329)	(331,494)	(381,823)
Movement in Reserves during 2018/19										
(Surplus) or Deficit on Provision of Services	(1,503)	0	27,690	0	0	0	0	26,187	(84)	26,103
Other Comprehensive (Income) and Expenditure	0	0	0	0	0	0	0	0	(6,432)	(6,432)
Total Comprehensive (Income) and Expenditure	(1,503)	0	27,690	0	0	0	0	26,187	(6,516)	19,671
Adjustments between Accounting Basis and Funding Basis under Regulations (Note 6)	(3,246)	0	(30,202)	0	(582)	(161)	(248)	(34,439)	34,439	0
Net (Increase)/Decrease before Transfers to Earmarked Reserves	(4,749)	0	(2,512)	0	(582)	(161)	(248)	(8,252)	27,923	19,671
Transfers to/(from) Earmarked Reserves (Note 7)	4,752	(4,752)	0	0	0	0	0	0	0	0
(Increase)/Decrease in Year	3	(4,752)	(2,512)	0	(582)	(161)	(248)	(8,252)	27,923	19,671
Balance at 31 March 2019 Carried Forward	(2,787)	(28,118)	(11,628)	(70)	(596)	(14,527)	(855)	(58,581)	(303,571)	(362,152)

WINCHESTER CITY COUNCIL STATEMENT OF ACCOUNTS 2018/19
MOVEMENT IN RESERVES STATEMENT FOR THE YEAR ENDED 31 MARCH 2019

	General Fund Balance £000	Earmarked General Fund Reserves £000	Housing Revenue Account £000	Earmarked HRA Reserves £000	Major Repairs Reserve £000	Capital Receipts Reserve £000	Capital Grants Unapplied £000	Total Usable Reserves £000	Unusable Reserves £000	Total Authority Reserves £000
Balance at 31 March 2017	(2,000)	(20,942)	(8,998)	(70)	(13)	(14,863)	(464)	(47,350)	(303,157)	(350,507)
Movement in Reserves During 2017/18										
(Surplus) or Deficit on Provision of Services Other Comprehensive (Income) and Expenditure	2,803	0	(34,321)	0	0	0	0	(31,518)	0	(31,518)
Total Comprehensive (Income) and Expenditure	2,803	0	(34,321)	0	0	0	0	(31,518)	202	202
Adjustments between Accounting Basis & Funding Basis Under Regulations (Note 6)	(6,017)	0	34,203	0	(1)	497	(143)	28,539	(28,539)	0
Net (Increase)/Decrease before Transfers to Earmarked Reserves	(3,214)	0	(118)	0	(1)	497	(143)	(2,979)	(28,337)	(31,316)
Transfers to/(from) Earmarked Reserves (Note 7)	2,424	(2,424)	0	0	0	0	0	0	0	0
(Increase)/Decrease in Year	(790)	(2,424)	(118)	0	(1)	497	(143)	(2,979)	(28,337)	(31,316)
Balance at 31 March 2018 Carried Forward	(2,790)	(23,366)	(9,116)	(70)	(14)	(14,366)	(607)	(50,329)	(331,494)	(381,823)

WINCHESTER CITY COUNCIL STATEMENT OF ACCOUNTS 2018/19
BALANCE SHEET AS AT 31 MARCH 2019

The Balance Sheet shows the value, as at the Balance Sheet date, of the assets and liabilities recognised by the Council. The Net Assets (assets less liabilities) are matched by the Council's reserves. There are two types of reserve shown in the Balance Sheet. The first category of reserves is usable reserves (those reserves that the Council may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use). The second category of reserves is those that the Council is not able to use to provide services. This category includes reserves that contain unrealised gains and losses, where amounts would only become available to provide services if the assets are realised. They also include reserves that hold timing differences and adjustments between the accounting basis and funding basis under regulations.

31 Mar 18		Note	31 Mar 19
£000			£000
520,172	Property, Plant and Equipment	8	496,469
2,770	Heritage Assets	9	2,800
47,714	Investment Property	10	53,794
167	Intangible Assets		251
17,933	Long-Term Investments	11	16,208
280	Long-Term Debtors	11	237
589,036	Long-Term Assets		569,759
19,852	Short-Term Investments	11	15,076
34	Inventories		40
10,544	Short-Term Debtors	12	10,724
1,256	Cash and Cash Equivalents		7,932
31,686	Current Assets		33,772
(398)	Short-Term Borrowing		(229)
(12,784)	Short-Term Creditors	13	(16,075)
(2,290)	Provisions	14	(3,049)
(15,472)	Current Liabilities		(19,353)
(156,896)	Long-Term Borrowing	11	(156,722)
(62,110)	Pension Scheme Liability	22	(60,790)
(4,421)	Grants and Contributions in Advance	18	(4,513)
(223,427)	Long-Term Liabilities		(222,025)
381,823	Net Assets		362,153
50,329	Usable Reserves		58,581
331,494	Unusable Reserves	15	303,572
381,823	Total Reserves		362,153

These financial statements replace the unaudited financial statements certified by Joseph Homes on 29 May 2019

Signature:

Date: 25 July 2019

Joseph Holmes
Strategic Director (Resources), Section 151 Officer

1. EXCEPTIONAL ITEM

In prior periods, there have been significant downward valuations below historic cost in the HRA, in particular in 2010/11 when a change in the social housing adjustment factor from 45% to 32% resulted in a downward valuation of £104 million. In line with proper accounting practice, subsequent upward valuations will reverse prior year charges to the Comprehensive Income and Expenditure Statement until the historic cost value is reached, at which point a revaluation reserve will be created.

In 2018/19 the value of dwellings has decreased by £32.9 million, in consequence there is a material increase in expenditure which has been treated as an exceptional item on the face of the Comprehensive Income and Expenditure Statement.

2. EXPENDITURE AND FUNDING ANALYSIS

The Expenditure and Funding Analysis shows how the Council has used the funding available to it (Government grants, rents, Council Tax, business rates, etc.) to deliver services, compared with those resources consumed or earned by the Council in accordance with International Accounting Standards (IAS). It also shows how this expenditure is allocated for decision making purposes between the Council Strategy outcomes. Income and expenditure accounted for under IAS is presented more fully in the Comprehensive Income and Expenditure Statement.

The analysis shows the reconciling adjustments for the differences between the costs under statutory provisions that are charged to the General Fund and HRA and those charged under proper accounting practice to the Comprehensive Income and Expenditure Statement.

- **Adjustments for Capital Purposes:**
For services this represents depreciation, amortisation and revaluation losses on assets used in the provision of services; and an adjustment for revenue expenditure funded from capital under statute (typically grants to third parties for capital works). In the *Other income and expenditure* row this represents revaluation gains and losses on investment property; gains or losses on the disposal of assets; the payments made to the pool on housing asset disposals; statutory and voluntary provision for the repayment of debt ; and capital expenditure funded from the General Fund and HRA.
- **Pension Adjustments:**
For services this represents the removal of employer pension contributions and replacing them with current service cost and past service cost as required by International Accounting Standard 19, *Employee Benefits* (IAS19). In the *Other income and expenditure* row this represents the interest payable on the pension liability in accordance with IAS19.
- **Other Statutory Adjustments:**
This represents the separation of Council Tax between amounts collected on behalf of Parishes from the Council's own requirement. It also includes the timing differences between the way that Council Tax and Business Rates are accounted for under statute and proper accounting practice under IFRS.

WINCHESTER CITY COUNCIL STATEMENT OF ACCOUNTS 2018/19
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019

2018/19	Net charge to the General Fund & HRA under statutory funding provisions £000	Adjustments for Capital Purposes £000	Net change for Pensions Adjustments £000	Other Net costs in the Adjustments Comprehensive Income and Expenditure Statement £000	£000
Business	1,544	85	53	0	1,682
Environment	2,816	574	497	0	3,887
Health and Happiness	2,692	791	94	0	3,577
Housing	(14,557)	42,141	615	0	28,199
Operational Delivery	2,834	4,860	394	0	8,088
Organisational Management	4,395	162	1,171	0	5,728
Cost of Services	(276)	48,613	2,824	0	51,161
Other income & expenditure	(21,903)	(4,707)	1,636	0	(24,974)
Other General Fund & HRA items	14,336	(13,424)	0	(912)	0
(Surplus)/deficit on the General Fund & HRA	(7,843)	30,482	4,460	(912)	26,187
Opening General Fund and HRA balance at 1 April 18	(35,355)				
Surplus on General Fund and HRA	(7,843)				
Closing General Fund and HRA balance at 31 March 19	(43,199)				
2017/18	Net charge to the General Fund & HRA under statutory funding provisions £000	Adjustments for Capital Purposes £000	Net change for Pensions Adjustments £000	Other Net costs in the Adjustments Comprehensive Income and Expenditure Statement £000	£000
Business	1,644	4	59	0	1,707
Environment	3,525	522	445	0	4,492
Health and Happiness	2,306	882	80	0	3,268
Housing	(16,431)	(18,282)	284	0	(34,429)
Operational Delivery	2,810	3,953	327	0	7,090
Organisational Management	4,393	154	(305)	0	4,242
Cost of Services	(1,753)	(12,767)	890	0	(13,630)
Other income & expenditure	(17,392)	(1,975)	1,479	0	(17,888)
Other General Fund & HRA items	15,814	(16,992)	0	1,178	0
(Surplus)/deficit on the General Fund & HRA	(3,331)	(31,734)	2,369	1,178	(31,518)
Opening General Fund and HRA balance at 1 April 17	(32,023)				
Surplus on General Fund and HRA	(3,331)				
Closing General Fund and HRA balance at 31 March 18	(35,354)				

WINCHESTER CITY COUNCIL STATEMENT OF ACCOUNTS 2018/19
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019

The following table shows the nature of the income and expenditure on Council services that are reported in the Comprehensive Income and Expenditure Statement:

2017/18		2018/19
£000		£000
20,237	Employees	22,850
8,107	Premises	9,267
791	Transport	861
7,813	Supplies & services	6,866
6,386	Third party payments	6,448
26,065	Benefit payments	24,856
(12,767)	Capital Charges	48,611
(2,097)	Support Services	(1,535)
(68,165)	External income	(67,063)
0	Internal Charges	0
(13,630)	Cost Of Services	51,161

2017/18	<u>Analysis of External Income</u>	2018/19
£000		£000
	Government Grants &	
(27,315)	Contributions	(25,705)
(28,651)	HRA Rent/ Service Charges	(28,417)
(12,199)	Other Fees & Charges	(12,941)
<u>(68,165)</u>		<u>(67,063)</u>

3. CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

In applying the accounting policies set out in Note 25 the Council has had to make certain judgements about complex transactions or those involving uncertainty about future events. The critical judgements made in the Statement of Accounts are:

- Future funding for local government - there is a high degree of uncertainty about future levels of funding for local government. However, the Council has determined that this uncertainty is not yet sufficient to provide an indication that the assets of the Council might be impaired as a result of a need to close facilities and reduce levels of service provision.
- Lease classifications - the Council has made judgements on whether its lease arrangements are operating leases or finance leases. These judgements are based on a series of tests designed to assess whether the risks and rewards of ownership have been transferred from the lessor to the lessee. The results of the tests are taken and a decision then made. The accounting treatment for operating and finance leases is significantly different and could have a significant effect on the accounts.
- Asset reclassifications - the Council has made judgements on whether assets are classified as Investment Property, Heritage Assets or Property, Plant and Equipment. These judgements are based on the main reason that the Council is holding the asset. If the asset is used in the delivery of services or is occupied by third parties who are subsidised by the Council they are deemed to be Property, Plant and Equipment assets. If there is no subsidy and/or full market rent is being charged this would indicate that the asset is an Investment Property, if held principally to be preserved, in trust, for future generations because of their cultural, environmental or historical associations, this would indicate a Heritage Asset. The classification determines the valuation method to be used.
- Contractual arrangements - the Council has made judgements on whether its contractual arrangements contain embedded leases (i.e. arrangements that are not legally leases but take the form of payments in return for the use of specific assets).

4. ASSUMPTIONS MADE ABOUT THE FUTURE AND OTHER MAJOR SOURCES OF ESTIMATION UNCERTAINTY

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

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

Item	Uncertainties	Effect if actual results differ from assumptions
Pensions Liability	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used; the rate at which salaries are projected to increase; changes in retirement ages; mortality rates; and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the Fund with expert advice about the assumptions to be applied.	The effects on the net pension's liability of changes in individual assumptions can be measured. The sensitivity of each of the assumptions used by the actuaries can be seen in Note 22 to the accounts.
Arrears/Debt Impairment	At 31 March 2019, the Council had a balance of sundry debtors of £7.8 million. A review of debtors, profiled by the age of the debt, suggested that an impairment of doubtful debts of 8.2% (£0.64 million) was appropriate. However, in the current economic climate it is not certain that such an allowance would be sufficient.	If collection rates were to deteriorate, and an increase of 5% was attributed to each category of aged debt, an additional impairment charge of £0.2 million would need to be set aside as an allowance.
Provision for Business Rates appeals	Since the introduction of the Business Rate Retention Scheme effective from 1 April 2013, Local Authorities are liable for successful appeals against business rates charged to businesses in 2018/19 and earlier financial years, in their proportionate share. A provision has been recognised as the best estimate that businesses have been overcharged based on the Valuation Office ratings list of appeals, the analysis of previous appeals and other relevant information known about.	The Council's share of the total business rate appeal provision of £7.44 million amounted to £2.98million. A further 1 percentage point provision rate increase, leading to a lower rateable value and reduced business rates income, would increase the Council's share of the liability by £0.59m.

5. EVENTS AFTER THE BALANCE SHEET DATE

The Statement of Accounts was certified by the Strategic Director (Resources) as true and fair at the time of signing the accounts. Events taking place after this date are not reflected in the financial statements or notes. Where events taking place before this date provided information about conditions existing at 31 March 2019, the figures in the financial statements and notes have, in all material respects, been adjusted to reflect the impact of this information.

No material events occurred after the balance sheet date of 31 March 2019.

WINCHESTER CITY COUNCIL STATEMENT OF ACCOUNTS 2018/19
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019

6. ADJUSTMENTS BETWEEN ACCOUNTING BASIS AND FUNDING BASIS UNDER REGULATIONS

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

2017-18					2018-19					
General Fund Balance	Housing Revenue Account	Capital Receipts Reserve	Major Repairs Reserve	Capital Grants Unappl'd	Adjustments between Accounting Basis and Funding Basis	General Fund Balance	Housing Revenue Account	Capital Receipts Reserve	Major Repairs Reserve	Capital Grants Unappl'd
£000	£000	£000	£000	£000		£000	£000	£000	£000	£000
Adjustments to Revenue Resources										
(2,188)	(182)	0	0	0	Pensions Costs (transfers to/ from Pensions Reserve)	(3,973)	(487)	0	0	0
34	(34)	0	0	0	Financial instruments (transfers to/ from Financial Instrument Adjustments Account)	62	(62)	0	0	0
(1,178)	0	0	0	0	Council Tax and Business Rates (transfers to/ from the Collection Fund Adjustment Account)	912	0	0	0	0
(3,236)	18,599	0	0	(143)	Reversal of entries included in the Surplus or Deficit on Provision of Services in relation to capital items (transfers with Capital Adjustment Account)	(1,036)	(44,679)	0	0	(248)
(6,568)	18,383	0	0	(143)	Total Adjustments to Revenue Resources	(4,035)	(45,228)	0	0	(248)
Adjustments between Revenue and Capital Resources										
0	3,167	(3,167)	0	0	Transfer of non current sale proceeds from revenue to the Capital Receipts Reserve	85	6,668	(6,754)	0	0
0	6,655	0	(6,655)	0	Funding set aside to Major Repairs Reserve (Housing)	0	8,358	0	(8,358)	0
415	0	0	0	0	Statutory provision for the Financing of Capital investment	514	0	0	0	0
0	1,029	0	0	0	Voluntary provision for the Financing of Capital Investment	0	0	1,163	0	0
(763)	0	763	0	0	Contribution from the Capital Receipts Reserve to finance the payments to the Government Capital Receipts Pool	(779)	0	779	0	0
899	4,969	0	0	0	Capital Expenditure financed from revenue	969	0	0	0	0
551	15,820	(2,404)	(6,655)	0	Total Adjustments between Capital and Revenue Resources	789	15,026	(4,812)	(8,358)	0
Adjustments to Capital Resources										
0	0	2,942	0	0	Use of Capital Receipts Reserve to finance capital spend	0	0	4,651	0	0
0	0	0	6,654	0	Use of Major Repairs Reserve to finance capital spend	0	0	0	7,776	0
0	0	(41)	0	0	Receipt of previously deferred capital receipts	0	0	0	0	0
0	0	2901	6654	0	Total Adjustments to Capital Resources	0	0	4,651	7,776	0
(6,017)	34,203	497	(1)	(143)	Total Adjustments	(3,246)	(30,202)	(161)	(582)	(248)

7. TRANSFERS (TO)/FROM EARMARKED RESERVES

This note sets out the amounts set-aside from the General Fund and Housing Revenue Account balances in earmarked reserves to provide financing for future expenditure plans; and the amounts released from earmarked reserves to meet General Fund and Housing Revenue Account expenditure in 2018/19.

	Balance at 1 Apr 2017	Net Transfers 2017/18	Balance at 31 Mar 2018	Transfers Out 2018/19	Transfers in 2018/19	Balance at 31 Mar 2019
	£000	£000	£000	£000	£000	£000
<u>General Fund</u>						
Operational Reserves						
Major Investment Reserve	(7,579)	191	(7,388)	1,340	(2,633)	(8,681)
Other	(3,622)	222	(3,400)	1,184	(612)	(2,842)
Asset Reserves						
Car Parks Property	(1,969)	(62)	(2,031)	160	(640)	(2,511)
Property Reserve	(3,541)	326	(3,213)	248	(300)	(3,265)
Other	(493)	(114)	(608)	317	(280)	(571)
Restricted Reserves						
CIL General Fund	(1,722)	(2,344)	(4,066)	242	(3,779)	(7,603)
Other	(636)	(268)	(904)	169	(604)	(1,339)
Risk Reserves						
Business Rates Retention	(1,242)	(375)	(1,617)	450	0	(1,167)
Other	(139)	0	(139)	0	0	(139)
Total General Fund	(20,943)	(2,424)	(23,366)	4,110	(8,848)	(28,118)
<u>Housing Revenue Account</u>						
Insurance	(70)	0	(70)	0	0	(70)
Total Earmarked Reserves	(21,013)	(2,424)	(23,436)	4,110	(8,848)	(28,188)

WINCHESTER CITY COUNCIL STATEMENT OF ACCOUNTS 2018/19
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019

8. PROPERTY, PLANT AND EQUIPMENT (PPE)

Movements in 2018/19	Council Dwellings	Other Land and Buildings	Vehicles, Plant, Furniture & Equipment	Infrastructure Assets	Community Assets	Assets Under Construction	Total Property, Plant and Equipment
	£000	£000	£000	£000	£000	£000	£000
<u>Cost or Valuation</u>							
At 1 April 2018	418,596	71,815	11,472	6,936	1,072	22,862	532,753
Additions	7,339	12,488	441	421	0	9,115	29,804
Revaluation Increases/(Decreases) Recognised in the Revaluation Reserve	0	(1,402)	0	0	0	0	(1,402)
Revaluation Increases/(Decreases) Recognised in the Surplus/Deficit on the Provision of Services	(40,389)	(4,568)	0	0	0	0	(44,957)
Derecognition - Disposals	(2,013)	(221)	(132)	0	0	(2,193)	(4,559)
Reclassifications	21,482	(2,275)	85	454	0	(22,021)	(2,275)
At 31 March 2019	405,015	75,837	11,866	7,811	1,072	7,763	509,364
<u>Accumulated Depreciation and Impairment</u>							
At 1 April 2018	0	(474)	(9,241)	(2,699)	(167)	0	(12,581)
Depreciation Charge	(7,990)	(1,551)	(671)	(247)	(2)	0	(10,461)
Accumulated Depreciation Written-Out to the Gross Carrying Amount on Depreciation Written-Out to the Revaluation Reserve	0	2,024	0	0	0	0	2,024
Depreciation Written Out to the Surplus/Deficit on the Provision of Services	7,990	0	0	0	0	0	7,990
Derecognition - Disposals	0	1	132	0	0	0	133
At 31 March 2019	0	0	(9,780)	(2,946)	(169)	0	(12,895)
<u>Net Book Value</u>							
At 31 March 2019	405,015	75,837	2,086	4,865	903	7,763	496,469
At 31 March 2018	418,596	71,341	2,231	4,236	905	22,862	520,172

WINCHESTER CITY COUNCIL STATEMENT OF ACCOUNTS 2018/19
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019

Movements in 2017/18	Council Dwellings	Other Land and Buildings	Vehicles, Plant, Furniture & Equipment	Infrastructure Assets	Community Assets	Assets Under Construction	Total Property, Plant and Equipment
<u>Cost or Valuation</u>	£000	£000	£000	£000	£000	£000	£000
At 1 April 2017	391,061	68,436	12,718	6,785	1,072	13,189	493,261
Additions	7,331	5,445	252	142	0	12,621	25,791
Revaluation Increases/(Decreases) Recognised in the Revaluation Reserve	0	557	0	0	0	0	557
Revaluation Increases/(Decreases) Recognised in the Surplus/Deficit on the Provision of Services	18,873	(2,618)	0	0	0	0	16,255
Derecognition - Disposals	(1,625)	(5)	(1,562)	(17)	0	(2)	(3,211)
Reclassifications	2,956	0	64	26	0	(2,946)	100
At 31 March 2018	418,596	71,815	11,472	6,936	1,072	22,862	532,753
<u>Accumulated Depreciation and Impairment</u>							
At 1 April 2017	0	(1,169)	(10,054)	(2,464)	(165)	0	(13,852)
Depreciation Charge	(6,231)	(1,674)	(749)	(252)	(2)	0	(8,908)
Accumulated Depreciation Written-Out to the Gross Carrying Amount on Depreciation Written-Out to the Revaluation Reserve	0	2,369	0	0	0	0	2,369
Depreciation Written Out to the Surplus/Deficit on the Provision of Services	6,231	0	0	0	0	0	6,231
Derecognition - Disposals	0	0	1,562	17	0	0	1,579
Other Movements in Depreciation and Impairment	0	0	0	0	0	0	0
At 31 March 2018	0	(474)	(9,241)	(2,699)	(167)	0	(12,581)
<u>Net Book Value</u>							
At 31 March 2018	418,596	71,341	2,231	4,237	905	22,862	520,172
At 31 March 2017	391,061	67,267	2,664	4,321	907	13,189	479,409

WINCHESTER CITY COUNCIL STATEMENT OF ACCOUNTS 2018/19
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019

Depreciation and estimated useful lives

From April 2017 the Council has been required to calculate depreciation on all HRA properties in accordance with proper practices; splitting assets into components with similar useful lives when doing the calculation. Previously, depreciation on HRA dwellings was an amount equivalent to the Major Repairs Allowance element of the Housing Revenue Account Self-Financing Determination. The lives of the material HRA components used in the calculation of dwelling depreciation are:

Boilers	12 years
Heating	20 – 40 years
Kitchens	19 years
Bathrooms	40 years
Roofs	50 years
Doors & windows	40 years
Electrical rewiring	30 years
Eaves & rainwater	40 years
Structure	68 years

For other types of assets the following useful lives have been used in the calculation of depreciation:

Other Land and Buildings	5 – 60 years
Vehicles, Plant, Furniture and Equipment	4 – 18 years
Infrastructure	5 – 60 years
Community Assets	5 – 60 years

There were no significant changes to the asset lives and depreciation methods used to calculate the charges during the year.

Capital Commitments for Property, Plant and Equipment

As at 31 March 2019, the Council had entered into a number of contracts for the construction or enhancement of Property, Plant and Equipment in 2019/20 and future years. The total commitments at 31 March 2019 were £38,045,000 (similar commitments at 31 March 2018 were £5,407,000) made up as follows:-

	£000
Winchester Sports and Leisure Centre	36,406
Housing New Build (Mayles Lane)	789
Other schemes	850
	<u>38,045</u>

Revaluations and Impairments

The Council carries out a rolling programme that ensures that all Property, Plant and Equipment (PPE) required to be measured at current value, or in the case of surplus assets fair value, is carried out at least every five years. Investment Properties are valued annually.

During 2018/19, Wilks Head & Eve (WHE) carried out a re-valuation of all of the Council's investment properties as well as all of the PPE assets:

- Investment properties – valuation date 31/12/2018
- PPE (with the exception of car parks) – valuation date 31/12/2018
- Car parks - valuation date 28/02/2019
- HRA dwellings and Garages - valuation date 31/12/2018

and following WHE's Market Reviews of 3rd April 2019 a re-valuation of:

- the HRA beacons to the closing book date of 31/03/2019.

The valuations were reviewed by Kevin Warren BSc MRICS Corporate Head of Asset Management and Sue Grant BSc (Hons) MRICS. The valuations were carried out in accordance with RICS Valuation - Global Standards 2017 and RICS Valuation – Professional Standards UK January 2014 (revised April 2015) (The Red Book) and in accordance with the specific sections that in the IFRS based CIPFA Code of Practice on Local Authority Accounting (the Code).

WINCHESTER CITY COUNCIL STATEMENT OF ACCOUNTS 2018/19
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019

Apart from infrastructure, community assets, and assets under construction, the basis of valuation for PPE assets is current value and there are four measurement approaches to calculating current value in the Code:

- For operational property, the asset is measured at its Existing Use Value (EUV) in accordance with the definitions in UKVS13.
- For social housing using the Beacon Method (as recommended in the Guidance on Stock Valuation for Resource Accounting revised November 2016) to arrive at the Market Value of the social housing stock, with an adjustment factor of 33% applied to arrive at EUV-Social Housing.
- For specialised assets Depreciated Replacement Cost (DRC) in accordance with UK VS 1.15 and UKGN2.
- For surplus assets, Fair Value as defined under IFRS 13 and as adopted by the Code.

The basis of valuation for Investment Properties is fair value, in accordance with IAS 40 Investment Property, and is subject to IFRS 13 Fair Value Measurement regarding the Fair Value hierarchy (input levels); consideration of the highest and best use; and disclosure requirements. To arrive at fair value, inputs include Market Value, Market Rental Value, yields, voids, contract duration, size, layout, location, access, condition, lease covenants, obsolescence, and income.

The valuation figures incorporated in the accounts are the aggregate of separate individual asset valuations of the portfolio, produced for financial reporting purposes only, and not a valuation or apportioned valuation of the portfolio valued as a whole.

Valuations of vehicles, plant, furniture and equipment are based on historic cost. The following table shows for each category of property, plant and equipment, those assets that are valued at historic cost and those which are re-valued (including the year in which the revaluations were completed).

	2018/19	2017/18	2016/17	2015/16	2014/15	Historic Cost	Total
	£000	£000	£000	£000	£000	£000	£000
Council Dwellings	405,015	0	0	0	0	0	405,015
Land & Buildings	75,835	0	0	0	0	0	75,835
Plant / Vehicles / Equipment	0	0	0	0	0	2,086	2,086
Infrastructure	0	0	0	0	0	4,866	4,866
Community Assets Under Construction	0	0	0	0	0	903	903
	0	0	0	0	0	7,763	7,763
Total	480,850	0	0	0	0	15,618	496,468

9. HERITAGE ASSETS

Reconciliation of the carrying value of heritage assets held by the Council:

	Archaeological collection	Art collection	Civic Regalia	Total
Cost or Valuation	£000	£000	£000	£000
1 April 2017	420	850	1,500	2,770
31 March 2018	420	850	1,500	2,770
Revaluation increases/(decreases) recognised in the Revaluation Reserve	30	0	0	30
31 March 2019	450	850	1,500	2,800

WINCHESTER CITY COUNCIL STATEMENT OF ACCOUNTS 2018/19
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019

Art Collection (Topographical Art and Portraits)

The Authority undertook an external valuation of its art work with an independent auction house (Andrew Smith & Son) as at 14 October 2011. This was a full market valuation of the collection for insurance purposes, based on commercial markets including recent transaction information from auctions where similar types of painting are regularly being purchased. Due to the majority of the art collection consisting of prints and original works by local amateur artists the individual artworks attract a nominal financial value.

Civic Regalia

An external valuation of the civic regalia was carried out as at 15 June 2011 by an independent auction house (Andrew Smith & Son). This was a full market valuation of the collection for insurance purposes.

Archaeology

The Archaeology collection has relatively little financial value, apart from a few pieces including the marble head which is on loan to the British Museum, but is of scientific value.

The marble head was most recently valued as at 30 June 2016 by the British Museum as part of the loan agreement and is reflected in the values above.

Museum Collection Additions

There were a number of additions and donations to the museum collections during the year, none of which has a significant monetary value. The additions include acquisitions of:

- two iron age coins;
- a post-medieval silver hawking vervel (ring);
- an iron cannon ball;
- a wooden cross; and
- several local history objects and photographs.

Disposals

There have been no disposals during this period.

10. INVESTMENT PROPERTIES

The following items of income and expenditure have been accounted for in the following Comprehensive Income and Expenditure Statement lines:

2017/18		2018/19
£000		£000
	<u>Income and Expenditure in Relation to Investment Properties</u>	
(2,562)	Rental Income from Investment Property	(2,900)
665	Direct Operating Expenses of Investment Property	367
(1,328)	Net (Gain)/Loss on Revaluation of Investment Property	(3,278)
(3,225)	Net (Income)/Expenditure on Investment Properties	(5,811)

The Council's investment properties were revalued as part of the exercise undertaken by Wilks Head & Eve LLP (see note 8) .

2017/18		2018/19
£000		£000
46,369	Opening Balance	47,714
0	Additions - Acquisitions	499
116	Additions - Enhancements	28
1,328	Net Gains/(Losses) from Fair Value Adjustments	3,278
	Transfers:	
(99)	- (To)/From Property, Plant and Equipment	2,275
47,714	Closing Balance	53,794

There are no restrictions on the Council's ability to realise the value inherent in its General Fund investment property or on the Council's right to the remittance of income and the proceeds of disposal. However, when disposing of Housing Revenue Account investment properties, the council is only able to retain receipts (and not pay them over to the Government) providing it has sufficient capital allowances. In practice, there were no

WINCHESTER CITY COUNCIL STATEMENT OF ACCOUNTS 2018/19
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019

such disposals in 2018/19 The Council has no contractual obligations to repairs, maintenance or enhancement of investment property.

Investment Properties Fair Value Measurements

	Retail	Offices	Industrial	Residential / Garages	Other	Total
	£000	£000	£000	£000	£000	£000
Level 2 Fair Value Measurements	31,482	9,181	3,667	7,622	1,842	53,794
Total	31,482	9,181	3,667	7,622	1,842	53,794

Valuation Techniques and Inputs

Land, Office, Industrial, Residential, Garage and Retail assets have been based on the market approach using current market conditions and recent sales prices and other relevant information for similar assets in the local authority area. Market conditions for these asset types are such that the level of observable inputs are significant leading to the properties being categorised at Level 2 in the fair value hierarchy.

Typical valuation inputs that have been analysed in arriving at fair value include: market rental and sale values; yields; void and letting periods; size; configuration, proportions and layout; location, visibility and access; condition; lease covenants; and obsolescence.

Unobservable Inputs

There are no assets within the Council's portfolio that are classed at Level 3 in the fair value hierarchy.

Sensitivity of Unobservable Inputs n/a

The Council holds several assets (garages, parcels of land, and small industrial units) as investment properties where the highest and best use is greater than their current use. In total, the difference between their current value and their highest and best use value is £3.98m. Of this amount, £3.45m relates to garage sites which are being held as investment properties for their rental income and future development potential.

Capital Commitments for Investment Property Assets

As at 31 March 2019, the Council had entered into contracts for the acquisition of Investment Properties in 2019/20 and future years. The total commitment at 31 March 2019 was £0.3m (similar commitments at 31 March 2018 were £nil).

Council as Lessor of Investment Properties

The Council leases out the majority of its investment properties under operating leases for the purpose of generating income. It also leases out property for the purpose of the provision of community services such as leisure facilities and community centres as well as for economic development purposes to provide suitable affordable accommodation for local businesses.

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

2017/18		2018/19
£000		£000
2,237	Due within one year	2,469
8,405	Due later than one year and not later than five years	8,642
74,502	Due after five years	75,482
85,144	Total future minimum lease rentals receivable	86,593

The minimum lease payments receivable do not include rents that are contingent on events taking place after the lease was entered into, such as adjustments following rent reviews, contingent rents are not material.

WINCHESTER CITY COUNCIL STATEMENT OF ACCOUNTS 2018/19
NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2019

11. FINANCIAL INSTRUMENTS

Financial instruments are contractual arrangements that give rise to a financial asset of one entity and a financial liability or equity instrument of another.

The following categories of financial instrument are carried in the Balance Sheet.

<u>Long Term</u> 31 Mar 18 £000	<u>Short Term</u> 31 Mar 18 £000		<u>Long Term</u> 31 Mar 19 £000	<u>Short Term</u> 31 Mar 19 £000
		<u>Investments</u>		
12,366	19,852	Amortised Cost	10,494	14,077
5,567	0	Fair Value through Profit or Loss	5,714	998
		<u>Cash and Cash Equivalents</u>		
0	315	Amortised Cost	0	756
	941	Fair Value through Profit or Loss	0	7,090
		<u>Debtors</u>		
280	7,084	Amortised Cost	237	9,027
18,213	28,192	Total Financial Assets	16,445	31,948
		<u>Borrowings</u>		
(156,722)	(57)	Amortised Cost	(156,722)	(57)
		<u>Other Liabilities</u>		
(174)	(342)	Finance Lease-Amortised Cost	0	(174)
		<u>Creditors</u>		
0	(5,067)	Amortised Cost	0	(6,304)
(156,896)	(5,466)	Total Financial Liabilities	(156,722)	(6,535)

Short term borrowing includes £57,000 (2018: £57,000) representing accrued interest on long-term borrowing.

The income, expense, gains and losses recognised in the Comprehensive Income and Expenditure Statement for the different categories of financial instruments are as follows:

2018/19	Financial Liabilities at Amortised Cost £000	Financial Assets: Amortised Cost £000	Financial Assets: Fair Value through profit or loss £000	Total £000
Interest Expense	5,176	0	0	5,176
(Gain)/loss on valuation	0	0	(84)	(84)
Interest Income	0	(303)	(357)	(660)
Net (Gain)/Loss for the Year	5,176	(303)	(441)	4,432
2017/18	£000	£000	£000	£000
Interest Expense	5,183	0	0	5,183
(Gain)/ loss on valuation	0	(41)	0	(41)
(gain)/ loss on derecognition	0	(86)	0	(86)
Interest Income	0	(298)	(310)	(608)
Net (Gain)/Loss for the Year	5,183	(425)	(310)	4,448

The Council has no material soft loans.

Fair Value of Assets and Liabilities

Financial instruments, except those classified at amortised cost, are carried in the Balance Sheet at amortised cost. Financial assets classified as Fair Value through Profit or Loss, the fair value is taken from market price.

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The fair value of financial assets held at amortised cost is higher than their balance sheet carrying amount because the interest rate on similar investments is now lower than that obtained when the investment was originally made.

Transition to IFRS 9

The Council adopted the IFRS 9 Financial Instruments accounting standard with effect from 1st April 2018. The main changes include the reclassification and remeasurement of financial assets and the earlier recognition of the impairment of financial assets

The Council has made use of the transitional provisions in IFRS 9 to not restate the prior year's financial statements, and the effect of the remeasurement is instead shown as an additional line in the Movement in Reserves Statement. The changes made on transition to the balance sheet are summarised below

	IAS 39	Reclassification		IFRS 9
	31/03/2018	Amortised Cost	Fair Value through profit or loss	01/04/2018
	£000	£000	£000	Total £000
Investments				
Loans & Receivables	15,598	15,598	0	15,598
Available for sale	22,124	16,620	5,504	22,124
Unquoted Equity Investments	63	0	63	63
Total investments	37,785	32,218	5,567	37,785
Cash and cash equivalents				
Loans & Receivables	315	315	0	315
Available for sale	941	0	941	941
Total cash and cash equivalents	1,256	315	941	1,256

Reclassification and Remeasurement of Impairment Losses at 1 April 2018

There were no impairment allowances in relation to investments before the implementation of IFRS 9. Remeasurement from an incurred losses to an expected losses basis at 1 April 2018 has no material impact.

12. SHORT-TERM DEBTORS

31 Mar 18		31 Mar 19
£000		£000
1,539	Central Government Bodies	617
2,504	Other Local Authorities	1,471
5,255	Other Entities and Individuals	7,394
215	NHS Bodies	361
197	Council Tax	208
254	Housing Rents	206
580	Prepayments	466
<u>10,544</u>	Total	<u>10,723</u>

13. SHORT-TERM CREDITORS

31 Mar 18		31 Mar 19
£000		£000
(3,843)	Central Government Bodies	(6,691)
(2,752)	Other Local Authorities	(1,766)
(1,359)	Other	(1,141)
(15)	NHS Bodies	0
(3,823)	Trade Creditors	(5,290)
(992)	Amounts Received in Advance	(1,186)
<u>(12,784)</u>	Total	<u>(16,074)</u>

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14. PROVISIONS

The 2018/19 provision consists of an amount for insurance (representing the excesses payable in respect of liabilities existing at the Balance Sheet date); and a provision for the Council's share of appeals that have been lodged against NNDR valuations. These liabilities were probable at the Balance Sheet date but the timing and amount was uncertain.

	Insurance £000	NNDR £000	Total £000
Balance at 1 April 2017	(74)	(1,522)	(1,596)
Additional Provisions made in 2017/18	0	(1,410)	(1,410)
Amounts Used in 2017/18	0	715	715
Balance at 1 April 2018	(74)	(2,216)	(2,290)
Additional Provisions made in 2018/19	0	(1,352)	(1,352)
Amounts Used in 2018/19	0	594	594
Balance at 31 March 2019	(74)	(2,974)	(3,048)

15. UNUSABLE RESERVES

The unusable reserves contain unrealised gains and losses, timing differences and adjustments between the accounting basis and funding basis under regulations.

31 Mar 18 £000		31 Mar 19 £000
(37,635)	Revaluation Reserve	(36,192)
(504)	Available for Sale Financial Instruments Reserve	0
0	Pooled Investment Funds Adjustment Account	(587)
(356,036)	Capital Adjustment Account	(327,241)
62,110	Pensions Reserve	60,790
(86)	Deferred Capital Receipts Reserve	(87)
657	Collection Fund Adjustment Account	(255)
<u>(331,494)</u>	Total Unusable Reserves	<u>(303,572)</u>

15.1. Revaluation Reserve

The Revaluation Reserve contains the gains made by the Council arising from increases in the value of its Property, Plant and Equipment and recognition of Heritage Assets at valuation. The balance is reduced when assets with accumulated gains are: re-valued downwards or impaired and the gains are lost; used in the provision of services and the gains are consumed through depreciation; or disposed of and the gains are realised.

2017/18 £000		2018/19 £000
(35,489)	Balance at 1 April	(37,635)
(4,378)	Upward Revaluation of Assets	(2,628)
1,452	Downward Revaluation of Assets and Impairment Losses not Charged to the Surplus/Deficit on the Provision of Services	1,976
(2,926)	Surplus or Deficit on Revaluation of Non-Current Assets not Posted to the Surplus or Deficit on the Provision of Services	(652)
777	Difference between Fair Value Depreciation and Historical Cost Depreciation	592
3	Accumulated Gains on Assets Disposed of or Transferred Between Funds	1,503
780	Amount Written Off to the Capital Adjustment Account	2,095
<u>(37,635)</u>	Balance at 31 March	<u>(36,192)</u>

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

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15.2. Capital Adjustment Account

The Capital Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for the consumption of non-current assets and for financing the acquisition, construction or enhancement of those assets under statutory provisions. The Account is debited with the cost of acquisition, construction or enhancement as depreciation, impairment losses and amortisations are charged to the Comprehensive Income and Expenditure Statement (with reconciling postings from the Revaluation Reserve to convert fair value figures to a historical cost basis). The Account is credited with the amounts set aside by the Council as finance for the costs of acquisition, construction and enhancement. The Account contains accumulated gains and losses on Investment Properties and gains recognised on donated assets that have yet to be consumed by the Council. The Account also contains revaluation gains accumulated on Property, Plant and Equipment before 1 April 2007, the date that the Revaluation Reserve was created to hold such gains.

2017/18		2018/19
£000		£000
(323,128)	Balance at 1 April	(356,036)
	<u>Reversal of Items Relating to Capital Expenditure Debited or Credited to the Comprehensive Income and Expenditure Statement:</u>	
8,908	Charges for Depreciation and Impairment of Non-Current Assets	10,461
(22,487)	Revaluation (Gains)/Losses on Property, Plant and Equipment	36,968
80	Amortisation of Intangible Assets	64
879	Revenue Expenditure Funded from Capital Under Statute	1,264
1,631	Amounts of Non Current Assets Written-Off on Disposal or Sale as Part of the Gain/Loss on Disposal to the Comprehensive Income and Expenditure Statement	4,427
<u>(10,989)</u>		<u>53,184</u>
(780)	Adjusting Amounts Written-Out of the Revaluation Reserve	(2,095)
<u>(11,769)</u>	Net Written Out Amount of the Cost of Non-Current Assets Consumed in the Year	<u>51,089</u>
	<u>Capital Financing Applied in the Year:</u>	
(2,942)	Use of the Capital Receipts Reserve to Finance New Capital Expenditure	(4,651)
(6,654)	Use of the Major Repairs Reserve to Finance New Capital Expenditure	(7,776)
0	Application of Grants to Capital Financing from the Capital Grants Unapplied Account	0
(2,903)	Capital Grants and Contributions Credited to the Comprehensive Income and Expenditure Statement that have been Applied to Capital Financing	(3,943)
(415)	Statutory Provision for the Financing of Capital Investment	(514)
(1,029)	Voluntary Provision for the Financing of Capital Investment	(1,163)
<u>(5,868)</u>	Capital Expenditure Charged Against the General Fund and HRA Balances	<u>(969)</u>
<u>(19,811)</u>		<u>(19,016)</u>
<u>(1,328)</u>	Movements in the Market Value of Investment Properties Debited or Credited to the Comprehensive Income and Expenditure Statement	<u>(3,278)</u>
<u>(356,036)</u>	Balance at 31 March	<u>(327,241)</u>

15.3. Pensions Reserve

The Pensions Reserve absorbs the timing differences arising from the different arrangements for accounting for post-employment benefits and for funding benefits in accordance with statutory provisions. The Council accounts for post-employment benefits in the Comprehensive Income and Expenditure Statement as the benefits are earned by employees accruing years of service, updating the liabilities recognised to reflect inflation, changing assumptions and investment returns on any resources set aside to meet the costs. However,

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statutory arrangements require benefit earned to be financed as the Council makes employer's contributions to pension funds or eventually pays any pensions for which it is directly responsible. The debit balance on the Pensions Reserve therefore shows a substantial shortfall in the benefits earned by past and current employees and the resources the Council has set aside to meet them. The statutory arrangements will ensure that funding will have been set aside by the time the benefits come to be paid.

2017/18 £000		2018/19 £000
56,410	Balance at 1 April	62,110
3,330	Actuarial Gains or Losses on Pensions Assets and Liabilities	(5,780)
5,590	Reversal of Items Relating to Retirement Benefits Debited or Credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement (Note 28)	7,760
(3,220)	Employer's Pensions Contributions and Direct Payments to Pensioners Payable in the Year (Note 28)	(3,300)
62,110	Balance at 31 March	60,790

16. OFFICERS' REMUNERATION

Employees' remuneration

Information relating to employees' remuneration is required to be published under the Accounts and Audit Regulations 2015. The following note shows the number of employees whose total remuneration exceeded £50,000 in 2018/19. For this purpose, remuneration includes gross pay, all taxable benefits and redundancy payments but excludes employer pension contributions.

<u>2017/18</u>				<u>2018/19</u>			
Ongoing Employees	Employees left in year	Total Employees	Remuneration Band	Ongoing Employees	Employees left in year	Total Employees	
15	1	16	£50,000-£54,999	13	0	13	
5	0	5	£55,000-£59,999	5	0	5	
2	1	3	£60,000-£64,999	6	0	6	
1	0	1	£65,000-£69,999	4	0	4	
2	0	2	£70,000-£74,999	4	0	4	
1	0	1	£75,000-£79,999	1	0	1	
0	0	0	£80,000-£84,999	1	0	1	
1	0	1	£85,000-£89,999	1	0	1	
1	0	1	£90,000-£94,999	3	0	3	
1	2	3	£105,000-£109,999	0	0	0	
0	0	0	£115,000-£119,999	1	0	1	
0	1	1	£135,000-£139,999	1	0	1	
29	5	34		40	0	40	

The banding note also includes the senior officer posts detailed below.

Senior Officers' remuneration

Further details relating to individual senior employees' remuneration is required to be published under the Accounts and Audit Regulations 2015. This note gives the details of the salary, allowances, benefits-in-kind and pension payments for senior employees whose salary exceeded £50,000 in 2018/19.

2018/19	Salary	Taxable expenses & benefits	Pension Payments	Compensation for loss of office	Total
	£'000	£'000	£'000	£'000	£'000
Chief Executive ¹	114	1	17	0	132
Strategic Director: Resources	89	1	13	0	103
Strategic Director: Place ²	74	1	11	0	86
Strategic Director	89	5	13	0	107
Strategic Director: Services (Interim) ³	65	3	10	0	78

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¹ The Chief Executive also received payments in her capacity as Returning Officer. These totalled £10,478 for elections conducted during 2018/19, excluded above.

² Strategic Director Place In post from 11th June 2018.

³ Strategic Director Services in post from 1st July 2018.

2017/18	Salary	Taxable expenses & benefits	Pension Payments	Compensation for loss of office	Total
	£'000	£'000	£'000	£'000	£'000
Chief Executive	108	1	15	0	125
Strategic Director: Services	86	4	12	0	102
Strategic Director: Resources	87	1	12	0	99
Head of Finance ¹	11	3	1	0	15

¹ The Head of Finance was Section 151 Officer until his departure in May 2017. The Head of Finance post has been removed from the establishment. The current Section 151 Officer is the Strategic Director: Resources.

17. EXTERNAL AUDIT COSTS

The Council has incurred the following costs in relation to the audit of the Statement of Accounts, certification of grant claims and statutory inspections and to non-audit services provided by the Council's external auditors.

2017/18 £000		2018/19 £000
56	Fees Payable to External Auditor with Regard to the External Audit Services Carried Out by the Appointed Auditor for the Year	43
11	Fees Payable to the External Auditor for the Certification of Grant Claims and Returns for the Year	14
0	Fees Payable in Respect of the Other Services Provided by the External Auditor During the Year	0
67	Total	57

18. GRANT INCOME

The Council credited the following grants, contributions and donations to the Comprehensive Income and Expenditure Statement.

Credited to Services:

2017/18 £000		2018/19 £000
	Credited to Services	
(356)	Benefit Administration	(334)
(45)	Bus Service Operators Grant	(45)
248	Contributions	(66)
(134)	Council Tax Benefits	(173)
(561)	Developers' Contributions	(226)
(441)	Hampshire County Contributions	(395)
(29)	Leader Project Funding	(38)
(163)	Other Grants and Reimbursements	(43)
(109)	Other Service Specific Grants	(102)
(14,304)	Rent Allowance	(13,316)
(12,022)	Rent Rebates	(11,451)
(27,916)	Total	(26,189)

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Credited to Taxation and Non Specific Grant Income

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

2017/18 £000		2018/19 £000
	Non Domestic Rates Income and Expenditure	
(23,517)	Retained Business Rates	(23,895)
1,071	Levy Payment	2,589
19,078	Tariff Payment	19,651
442	Share of (surplus)/deficit	(695)
(330)	S.31 Grants	(320)
(795)	Business Rate Relief Grants	(2,596)
(4,051)		(5,266)
	Capital Grants and Contributions	
(2,120)	Other Capital Grants and Contributions	(3,059)
(2,570)	Community Infrastructure Levy	(4,342)
(926)	Disabled Facilities Grant	(1,130)
(5,616)		(8,531)
	Non-Ringfenced Government Grants	
(303)	New Burdens Grant	(501)
(2,666)	New Homes Bonus	(2,115)
(510)	Revenue Support Grant	(54)
0	Other	(59)
(3,479)		(2,729)
(13,146)	Total	(16,526)
31 Mar 18 £000		31 Mar 19 £000
	<u>Grants and Contributions in Advance</u>	
(361)	Developers' Contributions - Social Housing	(705)
(690)	Developers' Contributions - Open Spaces	(545)
(63)	Developers' Contributions - Whiteley	(63)
(2,733)	Developers' Contributions - West of Waterlooville	(2,588)
(9)	Developers' Contributions - Barton Farm	(49)
(48)	Developers' Contributions the Dean Alresford	(48)
(147)	St. Catherine's Hill Nature Reserve	(141)
(318)	Open Spaces Commuted Payments	(315)
(43)	Supporting Troubled Families	(50)
(10)	Other	(10)
(4,422)	Total	(4,514)

19. 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. In this context, related parties include Central Government, Elected Members of the Council and officers of the Council.

Central Government

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

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form of grants; and prescribes the terms of many of the transactions that the Council has with other parties (e.g. Council Tax bills, housing benefits). Details of funding transactions with Government departments in the form of grants and contributions are set out in Note 18.

Elected members of the Council

Members of the Council have direct control over the Council's financial and operating policies. The payments made directly to Members under the Council's Members' Allowance Scheme during 2018/19 totalled £378,673 (£379,503 in 2017/18). The Mayor and Deputy Mayor also received allowances for their additional mayoral duties - these totalled £4,092 in 2018/19 (£4,910 in 2017/18). A detailed breakdown of amounts paid to individual Councillors and co-opted Members can be found on the Council's website www.winchester.gov.uk. During 2018/19 no members declared a material related party interest with the Council. Written declarations of interest are recorded in the Register of Members' Interests, which is open to public inspection on the Council's website (www.winchester.gov.uk). Declarations made at meetings are recorded in the minutes of that meeting.

Officers

Chief Officers have the ability to influence the Council. During 2018/19 there were no material transactions between the Council and Chief Officers.

The Council provides material financial assistance to a number of organisations (mainly arts or voluntary community bodies) although it does not exercise any form of control over these organisations.

20. CAPITAL EXPENDITURE AND CAPITAL FINANCING

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

2017/18		2018/19
£000	£000	£000
170,221	Opening Capital Financing Requirement	177,214
	<u>Capital Expenditure</u>	
25,791	Property, Plant and Equipment	29,804
116	Investment Properties	528
18	Intangible Assets	148
879	Revenue Expenditure Funded from Capital Under Statute	1,264
0	Acquisition of Share Capital	62
26,804		31,806
	<u>Sources of finance</u>	
(2,942)	Capital Receipts	(4,651)
(2,903)	Government Grants and other contributions	(3,943)
(6,654)	HRA Major Repairs Reserve	(7,776)
(4,969)	HRA Revenue	0
(899)	GF Reserves	(969)
(18,367)		(17,339)
8,437	Unfinanced capital expenditure in year	14,467
(415)	Statutory provision for the financing of capital investment	(514)
(1,029)	Voluntary provision for the financing of capital investment	(1,163)
177,214	Closing Capital Financing Requirement	190,004
	<u>Explanation for Movement in year</u>	
6,993	Increase/(decrease) in underlying need to borrow	12,790

21. TERMINATION BENEFITS AND EXIT PACKAGES

The Council terminated the contracts of 12 employees, incurring liabilities (for compensation for loss of office; employer's pension contributions for enhanced benefits; and other costs) in 2018/19 of £341,527 (£586,115 in 2017/18).

2017/18				2018/19			
Compulsory Redundancy	Other Termination	Amount Paid (£)	Total Package	Compulsory Redundancy	Other Termination	Amount Paid (£)	
0	6	66,966	£0 - £20,000	0	6	61,407	
0	1	35,894	£20,001 - £40,000	0	2	52,294	
0	0	0	£40,001 - £60,000	0	3	147,766	
1	0	68,812	£60,001 - £80,000	0	0	0	
1	0	86,302	£80,001 - £100,000	0	1	80,061	
0	1	115,374	£100,001 - £120,000	0	0	0	
1	0	212,767	£200,001 - £220,000	0	0	0	
3	8	586,115		0	12	341,527	

22. DEFINED BENEFIT PENSION SCHEMES

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

The Council participates in the Local Government Pension Scheme, administered locally by Hampshire County Council. This is a funded defined benefit final salary scheme, meaning that the Council and its employees pay contributions into a fund, calculated at a level intended to balance the pension liabilities with investment assets. The Council has also awarded discretionary post-retirement benefits upon early retirement. This is also through the Local Government Pension Scheme but as an unfunded defined benefit arrangement. The liabilities are recognised when awards are made. However, there are no investment assets built up to meet these pensions' liabilities, and cash is paid to the scheme to meet actual pension payments as they eventually fall due. The Pension Scheme is operated under the LGPS (Benefits, Membership and Contributions) Regulations 2007 and the governance of the scheme is the responsibility of the pension committee of Hampshire County Council. Policy is determined in accordance with the Pension Fund Regulations. The investment managers of the fund are appointed by the committee.

The principal risks to the Council of the scheme are the longevity assumptions; statutory changes to the scheme; structural changes to the scheme; and changes in inflation, bond yields and performance of the equity investments held by the scheme. These are mitigated to a certain extent by the statutory requirements to charge to the Council's General Fund the amounts required by statute.

The McCloud judgement on Pension Schemes

In December 2018 the Court of Appeal ruled against the Government in the McCloud/ Sargeant judgement which found that the transitional protection arrangements put in place when the firefighters' and judges' pension schemes were reformed were age discriminatory. The ruling has potential implications for other public sector schemes which were reformed around the same time and could lead to members who were being discriminated against being compensated.

In relation to the LGPS, all members were moved into the new 2014 scheme, but members within 10 years of normal retirement were given a 'better of both' promise, so that their benefits would be at least as valuable in terms of amount and when they could be drawn as if they had remained in the 2008 scheme. The constructive obligation on the Council's share of the Hampshire Pension Fund resulting from the McCloud judgement has been included in the figures in the 2018/19 financial statements.

Transactions relating to post-employment benefits

The cost of retirement benefits is recognised in the reported cost of services when they are earned by employees, rather than when the benefits are eventually paid as pensions. However, the charge against Council Tax is based on the cash payable in the year, so the real cost of post-employment/retirement benefits is reversed out of the General Fund and Housing Revenue Account via the Movement in Reserves Statement.

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The following transactions have been made in the accounts during the year:

2017/18		2018/19
£000		£000
	<u>Included in the Cost of Services</u>	
3,880	Current Service Cost	4,250
280	Past Service Cost	1,940
	<u>Included in Financing and Investment Income and Expenditure</u>	
1,430	Net Interest on the Net Defined Benefit Liability	1,570
	<u>Included in Other Comprehensive Income and Expenditure</u>	
3,330	Remeasurement of the Net Defined Benefit Liability	(5,780)
8,920	Total Included in Comprehensive Income and Expenditure	1,980
	<u>Included in the Movement in Reserves</u>	
(5,590)	Removal of Notional Charges Made for Retirement Benefits	(7,760)
3,220	Inclusion of Actual Employer's Contributions Payable	3,300
(2,370)	Total Included in the Movement in Reserves	(4,460)
	<u>Actual Employer's Contributions Charged Against Council Tax</u>	
2,750	Normal Funded Contributions	3,080
280	Lumps Sums for Early Retirements	40
190	Discretionary / Unfunded Added Years	180
3,220	Total Amount Charged to Council Tax	3,300

Assets and liabilities in relation to post-employment benefits

The movement in scheme liabilities was:

2017/18	2017/18		2018/19	2018/19
Funded	Unfunded		Funded	Unfunded
Liabilities	Liabilities		Liabilities	Liabilities
£000	£000		£000	£000
(163,820)	(2,710)	Opening Present Value of Liabilities	(172,210)	(2,640)
(3,880)	0	Current Service Cost	(4,250)	0
(4,210)	(70)	Interest Expense on Benefit Obligation	(4,430)	(70)
(870)	0	Contributions by Scheme Participants	(930)	0
(2,810)	(20)	Actuarial Gains / (Losses) - Financial Assumptions	(9,520)	(40)
0	0	Actuarial Gains / (Losses) - Demographic Assumptions	7,460	110
(920)	(30)	Actuarial Gains / (Losses) - Experience	(290)	(10)
4,580	190	Net Benefits Paid Out	4,410	180
(280)	0	Past Service Cost	(1,940)	0
(172,210)	(2,640)	Closing Present Value of Liabilities	(181,700)	(2,470)

The movement in the fair value of the scheme assets was:

2017/18		2018/19
£000		£000
110,120	Opening Fair Value of Assets	112,740
2,850	Interest Income on Assets	2,930
870	Contributions by Scheme Participants	930
3,030	Contributions by the Employer	3,120
450	Remeasurement Gains / Losses on Assets	8,070
(4,580)	Net Benefits Paid Out	(4,410)
112,740	Closing Fair Value of Assets	123,380

The expected return on scheme assets is determined by considering the expected returns available on the assets underlying the current investment policy.

The actual return on scheme assets in 2018/19 was £11 million (£3.3 million in 2017/18).

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Impact on the Council's cash flow

The deficit on the pension scheme will be made good by increased contributions over the remaining working life of employees (i.e. before payments fall due), as assessed by the scheme actuary and the recent changes to the scheme introduced on 1 April 2014 which will increase the amount paid into the scheme by employees and employers.

The total contributions expected to be made to the scheme by the Council in the year to 31 March 2020 is £5.89 million (£5.83 million for funded benefits and £0.06 million in respect of unfunded early retirements).

Basis for estimating assets and liabilities

The latest actuarial valuation of the Council's liabilities took place as at 31 March 2016. Liabilities have been estimated by the independent actuary, Aon Hewitt Limited, on an actuarial basis using the projected unit credit method. The principal assumptions used by the actuary in updating the valuation were:

Funded Benefits 2017/18 £000	Unfunded Benefits 2017/18 £000		Funded Benefits 2018/19 £000	Unfunded Benefits 2018/19 £000
<u>Principal Financial Assumptions</u>				
2.6%	2.6%	Rate for Discounting Scheme Liabilities	2.4%	2.4%
3.2%	3.2%	RPI Inflation Rate	3.3%	3.3%
2.1%	2.1%	CPI Inflation Rate	2.2%	2.2%
2.1%	2.1%	Pension Increases	2.2%	2.2%
2.1%	-	- Pension Accounts Revaluation Rate	2.2%	-
3.6%	-	- Rate of General Increases in Salaries	3.7%	-
<u>Mortality Assumptions</u>				
Future lifetime from 65 for members aged 65 at 31 Mar 17				
24.1	24.1	Males	23.3	23.3
27.2	27.2	Females	26.1	26.1
Future lifetime from 65 for members aged 45 at 31 Mar 17				
26.2		Males	24.9	
29.4		Females	27.8	
<u>Take Up of Option to Commute Pension to Lump Sum</u>				
70%		All Service (Inc. pre-2008 Service)	70%	

The scheme assets consist of the following categories, by proportion of total assets held:

2017/18 £000				2018/19 £000		
Quoted	Unquoted	Total		Quoted	Unquoted	Total
58.5%	4.1%	62.6%	Equities	54.0%	6.4%	60.4%
0.7%	6.3%	7.0%	Property	0.7%	6.9%	7.6%
23.5%	0.2%	23.7%	Government Bonds	22.6%	0.1%	22.7%
1.0%	0.0%	1.0%	Corporate Bonds	1.1%	4.1%	5.2%
2.6%	0.0%	2.6%	Cash	2.3%	0.0%	2.3%
0.2%	2.9%	3.1%	Other	0.1%	1.7%	1.8%
86.5%	13.5%	100.0%		80.80%	19.2%	100.0%

The overall expected return on each asset class is set out above. The overall expected rate of return on assets is then derived by aggregating the expected return on each asset class over the actual asset allocation from the Fund as at 31 March 2019.

Sensitivity of Actuarial Assumptions

The following table shows the sensitivity of the actuarial assumptions and what impact a 0.1% change would have for each of the assumptions.

Change in Assumptions as at 31 March 2019	Present Value of Total Obligation £000	Change in Present Value of Total Obligation %	Projected Service Cost £000	Approximate Change in Projected Service Cost %
0.1% Increase in Discount Rate	178,370	-1.8%	4,390	-3.0%
0.1% Decrease in Discount Rate	185,090	1.9%	4,660	3.0%
0.1% Increase in the Salary Increase Rate	182,300	0.3%	4,520	0.0%
0.1% Decrease in the Salary Increase Rate	181,700	-0.3%	4,520	0.0%
0.1% Increase in the Pensions Increase Rate	184,480	1.5%	4,660	3.0%
0.1% Decrease in the Pensions Increase Rate	178,960	-1.5%	4,390	-3.0%
1 year Increase in Post Retirement Mortality	175,970	-3.2%	4,350	-3.8%
1 year Decrease in Post Retirement Mortality	187,470	3.2%	4,690	3.9%

23. NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS

The Council has adopted CIPFA's Code of Practice on Treasury Management and complies with The Prudential Code for Capital Finance in Local Authorities (both revised in November 2017).

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

The Treasury Management Strategy includes an Annual Investment Strategy in compliance with the Ministry for Housing Communities and Local Government Guidance on Local Government Investments. This Guidance emphasises that priority is to be given to security and liquidity, rather than yield. The Council's Treasury Management Strategy and its Treasury Management Practices seek to achieve a suitable balance between risk and return or cost.

The main risks covered are:

- **Credit Risk:** The possibility that the counterparty to a financial asset will fail to meet its contractual obligations, causing a loss to the Council.
- **Liquidity Risk:** The possibility that the Council might not have the cash available to make contracted payments on time.
- **Market Risk:** The possibility that an unplanned financial loss will materialise because of changes in market variables such as interest rates or equity prices.

Credit Risk: Investments

The following arrangements were in place for managing credit risk in relation to financial assets and for estimating the impairment loss allowances that would expect the Council's exposure to risk:

Asset Type	Credit Risk Management Practices	Estimation of Impairment Loss Allowance
Government gilts, bonds Loans to other authorities	Investments guaranteed by statute – no credit risk.	No allowance required.
Deposits with banks, building societies and other investments	Deposits are restricted by the Council's Treasury Management Strategy to institutions with high credit ratings and will be recalled if these fall below investment grade A-. A limit of £7m of the total portfolio is placed on	12 month expected credit losses have been calculated by applying risk factors provided by the Council's treasury management providers.

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Asset Type	Credit Risk Management Practices	Estimation of Impairment Loss Allowance
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the amount of money that can be invested with a single counterparty. For unsecured investments in banks, building societies and companies, a smaller credit limit of £3.5m applies.

The Council also sets limits on investments in certain sectors. No more than £15m in total can be invested for a period longer than one year.

The credit quality of £11m of The Council's investments is enhanced by collateral held in the form of covered bonds collateralised by residential mortgages. The collateral significantly reduces the likelihood of The Council suffering a credit loss on these investments.

All deposits held at 31 March 2019 therefore have low credit risk.

The table below summarises the credit exposures of The Council's investment portfolio by credit rating and remaining time to maturity.

Long Term 31/03/2018 £000	Short Term 31/03/2018 £000	Credit Rating	Long Term 31/03/2019 £000	Short Term 31/03/2019 £000
7,367	5,128	AAA	8,990	2,003
0	0	AA+	0	0
0	0	AA	0	0
0	1,900	AA-	0	1,001
0	4,126	A+	0	0
0	3,006	A	0	4,004
0	0	A-	0	999
0	941	AAA Money Market Funds	0	7,090
5,002	7,522	Unrated local authorities	1,516	7,043
5,504	0	Credit risk not applicable	6,712	0
17,873	22,623	Total Investments	17,218	22,140

Credit Risk: Trade Receivables

Trade receivables are not subject to internal credit rating, and have been grouped together for the purposes of calculating expected credit losses. Balances are considered for write off when they are more than 12 months past due, but enforcement activity continues until there is no realistic prospect of recovery. Expected credit losses are calculated using provision matrices based on historical data for defaults adjusted for projections of improving or worsening local economic conditions. The following analysis summarises the Council's maximum exposure credit risk, based on experience of the level of default on trade debtors.

	31/03/2018		31/03/2019	
	Trade receivables £000	Loss Allowance £000	Trade receivables £000	Loss Allowance £000
Neither past due nor impaired	544	6	4,550	26
Past due < 3 months	891	54	1,151	57
Past due 3-12 months	1,357	71	854	163
Past due 12+ months	1,198	308	1,233	394
Individually impaired	703	298	0	0
Total	4,693	737	7,788	640

Liquidity Risk

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

The maturity analysis of the principal sums borrowed is as follows:

31/03/18		31/03/19
£000	Time to maturity	£000
5,000	Between 2 and 5 years	10,000
35,000	Between 5 and 10 years	30,000
50,000	Between 10 and 15 years	25,000
20,000	Between 15 and 20 years	25,000
20,000	Between 20 and 25 years	10,000
26,722	More than 25 years	56,722
156,722		156,722

Market Risks: Interest Rate Risk

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

- borrowings at variables rates - the interest expense will rise
- borrowings at fixed rates - the fair value of the liabilities borrowings will fall
- investments at variable rates - the interest income credited will rise
- investments at fixed rates - the fair value of the assets will fall

The Treasury Management Strategy aims to mitigate these risks by setting upper limits on its net exposures to fixed and variable interest rates. At 31 March 2019, all the net principal borrowed (i.e. borrowing net of investments) was exposed to fixed rates.

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

	£000
Increase in interest receivable on variable rate investments	(338)
Decrease in fair value of investments held at FVPL	16
Impact on Surplus or Deficit on the Provision of Services	(322)
Decrease in fair value of investments held at FVOCI/ Available for Sale	0
Impact on Comprehensive Income and Expenditure	(322)

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

Market Risks: Price Risk

The market prices of the Council's fixed rate bond investments and its units in pooled bond funds are governed by prevailing interest rates and the price risk associated with these instruments is managed alongside interest rate risk. The Council's investment in a pooled property fund is subject to the risk of falling commercial property prices. This risk is limited by the County Council's investment strategy. A 5% fall in commercial property prices at 31 March 2019 would result in a £0.28m (2018: £0.26m) charge to the Surplus or Deficit on the Provision of Services which is then transferred to the Pooled Investment Funds Adjustment Account.

24. CONTINGENT LIABILITIES

Guaranteed Minimum Pension Indexation and Equalisation

Guaranteed Minimum Pension (GMP) is a portion of pension that was accrued by individuals who were contracted out of the State Second Pension prior to 6 April 1997. All of the public service schemes, including the LGPS were contracted out.

Reforms to the State Pension system on 6 April 2016 removed the facility by which central government paid top up payments to members with GMP who reached State Pension Age (SPA) after that date. Before 6 April 2016 the LGPS was not required to pay full CPI increases on GMPs, so the top up payments had ensured that both state and scheme pensions, when combined, kept pace with inflation.

In March 2016 the government introduced an interim solution which made the LGPS responsible for paying the full increases on GMPs for individuals reaching SPA from 5 April 2016 through 6 December 2018. This was extended in January 2018 to individuals reaching SPA before 5 April 2021 and this has not yet been accounted for.

Aon, as the Fund's actuary has estimated that the potential IAS accounting liability of full GMP indexation (and equalisation) for members reaching SPA from 6 December 2018 to be in the region of 0.3% of the defined benefit obligation.

25. ACCOUNTING POLICIES

25.1 General Principles

The Financial Statements summarise the Council's transactions for the 2018/19 financial year and its position at 31 March 2019. The Accounts and Audit Regulations 2015 require the Council to prepare annual Financial Statements in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2018/19, supported by International Financial Reporting Standards (IFRS).

The Financial Statements have been prepared on a going concern basis. The accounting convention adopted is historical cost, modified by the revaluation of certain categories of tangible non-current assets and financial instruments.

25.2 Recognition 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:

- Revenue from the sale of goods is recognised when the Council transfers the significant risks and rewards of ownership to the purchaser and it is probable that economic benefits or service potential associated with the transaction will flow to the Council.
- Revenue from the provision of services is recognised when the Council can measure reliably the percentage of completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to the Council.
- Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption; they are carried as inventories on the Balance Sheet.
- Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made.
- Interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.
- Where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where debts may not be settled, the balance of debtors is impaired and a charge made to revenue for the income that might not be collected.

25.3 Cash and Cash Equivalents

Cash comprises cash in hand and demand deposits.

Cash Equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. The Council includes the following as Cash Equivalents:

- Instant Access/One Day Call Accounts
- Instant Access Short-Term Funds
- Short-Term deposits with seven days to maturity

25.4 Charges to Revenue for Non-Current Assets

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

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

The Council is not required to raise Council Tax to fund depreciation, revaluation and impairment losses or amortisation. However, it is required to make an annual contribution from revenue towards the reduction in its overall borrowing requirement equal to an amount calculated on a prudent basis determined by the Council in accordance with statutory guidance. Depreciation, revaluation and impairment losses, and amortisation are therefore replaced by the contribution in the General Fund Balance by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

25.5 Council Tax and Non-domestic Rates

Billing authorities act as agents, collecting council tax and non-domestic rates (NDR) on behalf of the major preceptors (including government for NDR) and, as principals, collecting council tax and NDR for themselves. Billing authorities are required by statute to maintain a separate fund (i.e. the Collection Fund) for the collection and distribution of amounts due in respect of council tax and NDR. Under the legislative framework for the Collection Fund, billing authorities, major preceptors and central government share proportionately the risks and rewards that the amount of council tax and NDR collected could be less or more than predicted.

Accounting for Council Tax and NDR

The council tax and NDR income included in the Comprehensive Income and Expenditure Statement is the authority's share of accrued income for the year. However, regulations determine the amount of council tax and NDR that must be included in the authority's General Fund. Therefore, the difference between the income included in the Comprehensive Income and Expenditure Statement and the amount required by regulation to be credited to the General Fund is taken to the Collection Fund Adjustment Account and included as a reconciling item in the Movement in Reserves Statement.

The Balance Sheet includes the authority's share of the end of year balances in respect of council tax and NDR relating to arrears, impairment allowances for doubtful debts, overpayments and prepayments and appeals.

25.6 Employee Benefits

Benefits Payable During Employment

Short-Term employee benefits are those due to be settled within 12 months of the year-end. They include such benefits as salaries; paid annual leave and paid sick leave; for current employees. They are recognised as an expense for services in the year in which employees render services to the Council

Termination Benefits

Termination benefits are amounts payable as a result of a decision by the Council to terminate an officer's employment before the normal retirement date; or an officer's decision to accept voluntary redundancy. These are charged on an accruals basis to the relevant service line in the Comprehensive Income and Expenditure Statement when the Council is demonstrably committed to the termination of the employment of an officer or group of officers, or making an offer to encourage voluntary redundancy.

Post-Employment Benefits

Most employees of the Council are members of the Local Government Pension Scheme, administered by Hampshire County Council. The scheme provides members with defined benefits (retirement lump sums and pensions) earned by employees whilst working for the Council; and is accounted for as a defined benefits scheme where:

- The liabilities of the Hampshire County Council Pension Fund attributable to the Winchester City Council are included in the Council's Balance Sheet on an actuarial basis using the projected unit method – i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees; based on assumptions about mortality rates, employee turnover rates, etc.; and projections of projected earnings for current employees.
- Liabilities are discounted to their value at current prices using a discount rate of 2.4% (for liabilities 0-21 years in duration) and 2.5% (for liabilities 21.1 years and over in duration) for both funded and unfunded liabilities. The discount rates are based on the indicative rate of return on high quality corporate bonds – for 2018/19 this used the Aon Hewitt GBP Select AA Curve.
- The assets of the Hampshire County Council Pension Fund attributable to the Council are included in the Balance Sheet at their fair value: quoted securities at current bid price; unquoted securities at professional estimate; unitised securities at current bid price; and property at market value.
- The change in the net pensions liability is analysed into the following components:

- Service costs comprising

- Current service cost – the increase in liabilities as a result of years of service earned this year – allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked.

- Past service cost – the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years – debited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of non-distributed costs.

- Net Interest on the Net Defined Benefit Liability – the expected increase in the present value of liabilities during the year as they move one year closer to being paid – debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

- Re-measurements

- 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 the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

- Actuarial gains and losses – changes in the net pension liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – this is debited to the Pensions Reserve.

Contributions paid to the Hampshire Pension Fund – cash paid as employer's contributions to the pension fund in settlement of liabilities; not accounted for as an expense. In relation to retirement benefits, statutory provisions require the General Fund and Housing Revenue Account to be charged with the amount payable by the Council to the pension fund or directly to pensioners in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement 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 pensioners (and any such amounts payable but unpaid at the year-end). The negative balance that arises on the Pensions Reserve thereby measures the beneficial impact to the General Fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits are earned by employees.

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 that the decision to make the award is made. It is accounted for using the same policies as are applied to the Local Government Pension Scheme.

25.7 Fair Value Measurement

The Council measures some of its non-financial assets such as investment properties and some of its financial instruments at fair value at each reporting date. Fair value is the price that would be received to sell an asset (or paid to transfer a liability) in an orderly transaction between market participants at the measurement date. The fair value measurement assumes that the transaction to sell the asset or transfer the liability takes place either:

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

The Council measures the fair value of an asset or liability on the same basis that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

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

The Council uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available, maximising the use of relevant observable inputs and minimising the use of unobservable inputs. Valuation techniques use categories within the fair value hierarchy, as follows:

- Level 1 - quoted prices
- Level 2 - inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly
- Level 3 - unobservable inputs for the asset or liability.

25.8 Financial Instruments

Financial instruments are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of the financial instrument. They are initially measured at fair value.

Financial Liabilities

Financial liabilities are subsequently measured at amortised cost. For most of the Council's borrowing this means that the amount presented in the Balance Sheet is the outstanding principal repayable (plus accrued interest). Annual charges to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement (CIES) are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument.

Financial Assets

Financial assets are subsequently measured in one of two ways:

- Amortised cost – assets whose contractual terms are basic lending arrangements (i.e. they give rise on specified dates to cash flows that are solely payments of principal or interest on the principal amount outstanding, which the Council holds under a business model whose objective is to collect those cash flows)
- Fair value – all other financial assets.

Amortised cost assets are measured in the Balance Sheet at the outstanding principal repayable (plus accrued interest). Annual credits to the Financing and Investment Income and Expenditure line in the CIES are based on the carrying amount of the asset, multiplied by the effective rate of interest for the instrument.

Allowances for impairment losses have been calculated for amortised cost assets, applying the expected credit losses model. Changes in loss allowances are debited/ credited to the Financing and Investment Income and Expenditure line in the CIES.

Changes in the value of assets carried at fair value (described as Fair Value through Profit or Loss) are debited/ credited to the Financing and Investment Income and Expenditure line in the CIES as they arise. A statutory reversal is in place until 31 March 2023; gains and losses are reversed out of the General Fund Balance to a specific adjustment account.

25.9 Government Grants and Other Contributions

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

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

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

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

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

Business Improvement Districts

There are two Business Improvement Districts (BID), the schemes are funded by a BID levy paid by non-domestic rate payers.

The Council acts as principal under one scheme, and accounts for income received and expenditure incurred (including contributions to the BID project) within the relevant services within the Comprehensive Income and Expenditure Statement.

The Council acts as a recipient in the other scheme which covers an overlapping area of both Winchester City Council (17.9%) and Fareham Borough Council (82.1%). Fareham Borough Council act as the Principal; accounts for income received and expenditure incurred (including contributions to the BID project) within the relevant services within the Comprehensive Income and Expenditure Statement.

Community Infrastructure Levy

The authority has elected to charge a Community Infrastructure Levy (CIL). The levy will be charged on new builds (chargeable developments for the authority) with appropriate planning consent. The council charges for and collects the levy, which is a planning charge. The income from the levy will be used to fund a number of infrastructure projects (these include transport, flood defences and schools) to support the development of the area.

CIL is received without outstanding conditions; it is therefore recognised at the commencement date of the chargeable development in the Comprehensive Income and Expenditure Statement in accordance with the accounting policy for government grants and contributions set out above. CIL charges will be largely used to fund capital expenditure. However, a proportion of the charges for this authority may be used to fund revenue expenditure.

25.10 Investment Property

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

Investment properties are measured initially at cost and subsequently at fair value. Properties are not depreciated but are re-valued annually according to market conditions at the year-end. Gains and losses on revaluation are posted to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. Revaluation and disposal gains and losses are not permitted by statutory

arrangements to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and (for any sale proceeds greater than £10,000) the Capital Receipts Reserve.

25.11 Overheads and Support Services

The costs of overheads and support services are charged to service segments in accordance with the absorption costing principle. The full cost of overheads and support services is shared between service segments in proportion to the benefits received.

25.12 Property, Plant and Equipment

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

Recognition

Expenditure on the acquisition, creation or enhancement of Property, Plant and Equipment, which exceeds the de-minimis of £10,000, is capitalised on an accruals basis, provided that it is probable that the future economic benefits or service potential associated with the item will flow to the Council and the cost of the item can be measured reliably. Expenditure that maintains but does not add to an asset's potential to deliver future economic benefits or service potential (i.e. repairs and maintenance) is charged as an expense when it is incurred.

Measurement

Assets are initially measured at cost, comprising:

- the purchase price
- any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management
- the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

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

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

Where gains are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund Balance to the Capital Adjustment Account in the Movement in Reserves Statement.

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

- infrastructure, community assets and assets under construction – depreciated historical cost
- dwellings – fair value, determined using the basis of existing use value for social housing (EUV-SH)
- all other assets – fair value, determined as the amount that would be paid for the asset in its existing use (existing use value – EUV).
- Assets of a specialised nature – depreciated replacement cost (DRC)

Assets included in the Balance Sheet at current value are re-valued sufficiently regularly to ensure that their carrying amount is not materially different from their current value at the year-end, but as a minimum every five years. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. Unrealised gains are only credited to the Comprehensive Income and Expenditure Statement where they arise from the reversal of a loss previously charged to a service.

Where decreases in value are identified, they are accounted for based on the presence of a balance in the Revaluation Reserve:

- where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains)

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

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

Impairment

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

Where impairment losses are identified, they are accounted for in the same way as revaluation losses.

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

Depreciation

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

Depreciation is calculated on the following bases:

- dwellings and other buildings – straight-line allocation over the useful life of the property as estimated by the valuer
- vehicles, plant, furniture and equipment – a percentage of the value of each class of assets in the Balance Sheet, as advised by a suitably qualified officer
- infrastructure – straight-line allocation between 5–60 years.

Where a significant item of Property, Plant and Equipment (valued over £1.5 million) has major components (over 20% of the total value) with materially different useful lives the components are depreciated separately.

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

Depreciation charged in year is based on the opening gross book values of the assets. It does not include any revaluations or additions in year. A full year of depreciation is charged in the year of disposal.

Disposals and Non-Current Assets Held for Sale

When it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction rather than through its continuing use, it is reclassified as an Asset Held for Sale. The asset is revalued immediately before reclassification and then carried at the lower of this amount and fair value less costs to sell. Where there is a subsequent decrease to fair value less costs to sell, the loss is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Gains in fair value are recognised only up to the amount of any previous losses recognised in the Surplus or Deficit on Provision of Services.

Depreciation is not charged on Assets Held for Sale.

Amounts received for a disposal in excess of £10,000 are categorised as capital receipts. A proportion of receipts relating to housing disposals may need to be paid to Central Government in accordance with the Council's signed agreement.

Receipts are appropriated to the Reserve from the General Fund Balance in the Movement in Reserves Statement. The written-off value of disposals is not a charge against Council Tax, as the cost of fixed assets is

fully provided for under separate arrangements for capital financing. Amounts are appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

25.13 Provisions

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

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

25.14 Reserves

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

Certain reserves are kept to manage the accounting processes for non-current assets; financial instruments; and retirement and employee benefits. These do not represent usable resources for the Council

25.15 Revenue Expenditure Funded from Capital Under Statute

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

25.16 Value Added Tax (VAT)

VAT payable is included as an expense only to the extent that it is not recoverable from Her Majesty's Revenue and Customs. VAT collected is excluded from income.

WINCHESTER CITY COUNCIL STATEMENT OF ACCOUNTS 2018/19
HOUSING REVENUE ACCOUNT INCOME AND EXPENDITURE FOR YEAR ENDED 31 MARCH 2019

The Housing Revenue Account (HRA) is a record of the revenue expenditure and income relating to the Council's housing stock. Its primary purpose is to ensure that expenditure on managing and maintaining dwellings is balanced by rents charged to tenants. The HRA is a statutory account that is ring-fenced from the rest of the Council Fund, so that rents cannot be subsidised from Council Tax (or vice versa).

2017/18	Note	2018/19
£000		£000
Income		
(26,111) Dwelling Rents		(25,961)
(1,148) Non-Dwelling Rents		(874)
(1,841) Charges for Services and Facilities		(1,971)
(29,100) Total Income		(28,806)
 Expenditure		
3,951 Repairs and Maintenance		4,837
6,858 Supervision and Management		7,572
386 Rents, Rates, Taxes and Other Charges		478
6,640 Depreciation and Impairment of Non-Current Assets	H5	8,349
(25,796) Revaluation (Gains) or Losses on Property, Plant and Equipment	H5	32,850
15 Amortisation of Intangible Assets	H5	10
25 Debt Management Costs		14
(7,921) Total Expenditure		54,110
Net (Income) or Expenditure of HRA Services as included in the whole		
(37,021) Council Comprehensive Income and Expenditure Statement		25,304
130 HRA share of Corporate and Democratic Core		431
HRA share of other amounts included in the whole Council Net Expenditure		
47 of Continuing Operations but not allocated to Specific Services		11
(36,844) Net (Income) or Expenditure of HRA Services		25,746
(1,557) Net Gain on Sale of HRA Non-Current Assets		(2,487)
Changes in Fair Valuations on Investment		
(59) Properties		(21)
5,168 External Interest Payable		5,168
(1,029) Capital Grants and Contributions		(717)
(34,321) (Surplus)/Deficit for the year on HRA Services		27,689

WINCHESTER CITY COUNCIL STATEMENT OF ACCOUNTS 2018/19
STATEMENT OF MOVEMENT ON THE HOUSING REVENUE ACCOUNT BALANCE
FOR THE YEAR ENDED 31 MARCH 2019

This reconciliation statement summarises the differences between the deficit on the Comprehensive Income and Expenditure Statement and the Housing Revenue Account Balance.

2017/18		2018/19
£000	£000	£000 £000
	(34,321) (Surplus)/Deficit for the year on the Housing Revenue Account	27,366
	<u>Adjustments between Accounting Basis and Funding Basis under Statute:</u>	
	-	
(34)	Difference between Interest Payable and Similar Charges including Amortisation of Premiums and Discounts Determined in Accordance with the Code and those Determined in Accordance with Statute	(62)
(182)	Reversal of Items Relating to Retirement Benefits and Employer's Pensions Contributions and Direct Payments to Pensioners Payable in the Year	H1 (486)
25,855	Reversal of Revaluation Gains or (Losses) on Property, Plant and Equipment and Movements in the Market Value of Investment Properties	(32,829)
1,557	Net Gain on Sale of Non-Current Assets	2,487
4,969	Capital Expenditure Funded from the HRA	0
1,029	Reversal of Capital Grants and Contributions	717
(20)	Contribution from the Capital Receipts Reserve towards Administrative costs of Non-Current Asset Disposals	(26)
(6,640)	Charges for Depreciation and Impairment of Non-Current Assets	(8,349)
(15)	Amortisation of Intangible Assets	(10)
6,655	Transfer to Major Repairs Reserve	8,358
	33,174	(30,200)
	Net increase in HRA Balance before transfers to or from (1,147) Reserves	(2,511)
	1,029 Transfer to Capital Adjustment Account for Debt Repayment	0
	(118) Increase in HRA Balance	(2,511)
	(8,998) Housing Revenue Account Surplus Brought Forward	(9,116)
	(9,116) Housing Revenue Account Surplus Carried Forward	(11,627)

WINCHESTER CITY COUNCIL STATEMENT OF ACCOUNTS 2018/19
NOTES TO THE HOUSING REVENUE ACCOUNT FOR THE YEAR ENDED 31 MARCH 2019

H1. IAS 19 EMPLOYEE BENEFITS

In accordance with the requirements of IAS 19 and the statutory regulations regarding the Housing Revenue Account, the account has been charged with an allocation of its share of the current and past service costs. This adjustment is then reversed out of the Housing Revenue Account via the Statement of Movement on the Housing Revenue Account Balance, so its effect on the account is neutral.

H2. MAJOR REPAIRS RESERVE

This is a statutory reserve used to fund the conservation of the Housing Revenue Account (HRA) long-term assets and annually an amount equal to HRA depreciation is placed into the reserve for this purpose..

2017/18		2018/19
£000		£000
(6,655)	HRA Depreciation	(8,358)
(6,655)	Net Charge to HRA	(8,358)
6,654	HRA Capital Financed	7,776
(1)	Movement in Year	(582)
(13)	Balance Brought Forward at 1 April	(14)
(14)	Balance Carried Forward at 31 March	(596)

H3. HOUSING STOCK

The number and types of dwelling in the Council's housing stock as at 31 March were made up as in the following table:

31 Mar 18		31 Mar 19
863	Bungalows	863
1,925	Flats & Maisonettes	1,997
2,235	Houses	2,222
13	Shared ownership	18
5,036		5,100

The Balance Sheet value of land, housing and other property within the HRA as at 31 March is given below:

31 Mar 18		31 Mar 19
£000		£000
	<u>Operational Assets</u>	
418,596	Dwellings	405,015
10,078	Other Land and Buildings	6,257
30	Vehicles Plant Furniture and Equipment	23
3,227	Infrastructure	3,717
14	Community Assets	14
21,817	Assets Under Construction	4,277
39	Intangibles	30
453,801		419,333
	<u>Non-Operational Assets</u>	
2,710	Investment Properties	2,731
456,511	Total value	422,064

In arriving at the Balance Sheet value of Dwellings, the vacant possession value of a property is multiplied by a Government recommended percentage to arrive at the value for social housing. The figure for 2018/19 was 33% (2017/18 - 33%) with the exception of affordable housing which was valued at its existing use.

WINCHESTER CITY COUNCIL STATEMENT OF ACCOUNTS 2018/19
NOTES TO THE HOUSING REVENUE ACCOUNT FOR THE YEAR ENDED 31 MARCH 2019

The valuation for existing use for social housing, which is the value held in the Statement of Accounts, was £405 million at 31 March 2019 (£419 million at 31 March 2018) and the vacant possession value was £1,206 million (£1,256 million at 31 March 2018).

H4. CAPITAL EXPENDITURE AND RECEIPTS

2017/18 £000	£000		2018/19 £000	£000
	162,051	Opening Capital Financing Requirement		164,022
		<u>Capital Expenditure</u>		
7,331		Dwellings	7,339	
142		Infrastructure	214	
11,550		Assets Under Construction	6,552	
	19,023	Expenditure in year		14,105
		<u>Financed by</u>		
(2,421)		Capital Receipts	(3,337)	
(6,654)		Major Repairs Reserve	(7,776)	
(4,969)		Contributions from Revenue	0	
(1,979)		Grants and Contributions	(717)	
	(16,023)			(11,830)
	3,000	Unfinanced Capital Expenditure in Year		2,275
	(1,029)	Voluntary Financing of Capital Investment		(1,163)
	0	Transfer of assets to the General Fund		(2,275)
	164,022	Closing Capital Financing Requirement		162,859
		<u>Capital Receipts</u>		
		Operational Assets		
	(2,092)	Dwellings		(5,348)
	0	Other		(225)
	(2,092)	Total		(5,573)

H5. DEPRECIATION AND IMPAIRMENT

2017/18 £000		2018/19 £000
	<u>Depreciation</u>	
6,231	Dwellings	7,990
227	Other Land and Buildings	173
8	Vehicles, Plant, Furniture and Equipment	8
174	Infrastructure	178
6,640	Total Depreciation	8,349
	<u>Amortisation</u>	
15	Intangibles	10
15	Total Amortisation	10
	<u>Revaluation Below Historic Cost</u>	
(25,104)	Dwellings	32,399
(692)	Other Land and Buildings	451
(25,796)	Total	32,850

WINCHESTER CITY COUNCIL STATEMENT OF ACCOUNTS 2018/19
NOTES TO THE HOUSING REVENUE ACCOUNT FOR THE YEAR ENDED 31 MARCH 2019

As at the 1 April 2007 new fixed assets accounting was adopted by local government and property values at that date were deemed to be historic cost. In 2008/09, the market value of the properties dropped below the 1 April 2007 values resulting in costs being charged to the Comprehensive Income & Expenditure Statement (CIES) in line with standard accounting practice. During 2010/11 Dwelling market values increased but Central Government reduced the percentage to be applied to valuing social housing from 45% to 32%, resulting in a downward revaluation of £104.0 million. Since then, the social housing factor remained at 32% until 2016/17 when it increased to 33%. The value of dwellings has decreased in 2018/19, by £32.399m, increasing the overall reduction to the 2007/08 historic cost as set in April 2007. Any future upward valuation will reverse the charges to the CIES and, when the historic cost values are reached and downward valuations reversed, a revaluation reserve will be created.

H6. RENT ARREARS

31 Mar 18		31 Mar 19
£000		£000
565	Rent Arrears	578
<u>(310)</u>	Provision for Bad Debts	<u>(372)</u>
<u>255</u>	Anticipated Collectable Arrears	<u>206</u>

WINCHESTER CITY COUNCIL STATEMENT OF ACCOUNTS 2018/19
COLLECTION FUND FOR THE YEAR ENDED 31 MARCH 2019

The Collection Fund is an agent's statement that reflects the statutory obligation for billing authorities to maintain a separate Collection Fund. The statement shows the transactions of the billing authority in relation to the collection from taxpayers and distribution to local authorities and the Government of Council Tax and Non-Domestic Rates.

2017/18				2018/19		
Business Rates £000	Council Tax £000	Total £000		Business Rates £000	Council Tax £000	Total £000
0	(75,538)	(75,538)	<u>Income</u>	0	(81,084)	(81,084)
(58,078)	0	(58,078)	Council Tax Receivable	(62,497)	0	(62,497)
(58,078)	(75,538)	(133,616)	Business Rates Receivable	(62,497)	(81,084)	(143,581)
			<u>Expenditure</u>			
			Precepts and Shares			
29,138	0	29,138	Central Government	29,612	0	29,612
5,245	54,156	59,401	Hampshire County Council	5,330	58,114	63,444
23,310	10,048	33,358	General Fund (WCC)	23,689	10,664	34,353
583	3,051	3,634	Fire and Rescue Authority	592	3,181	3,773
0	7,908	7,908	Police Authority	0	8,587	8,587
			Distribution of Previous Year Deficit			
745	0	745	Central Government	(475)	0	(475)
134	799	933	Hampshire County Council	(87)	363	276
596	80	676	General Fund (WCC)	(386)	137	(249)
15	46	61	Fire and Rescue Authority	(10)	20	10
0	119	119	Police Authority	0	53	53
			<u>Charges to Collection Fund</u>			
4	0	4	Interest due to ratepayers on refunds	0	0	0
176	32	208	Less Write-Off of Uncollectable Amounts	130	176	306
106	28	134	Allowance for Impairment	206	2	208
1,736	0	1,736	Provision for Appeals	1,895	0	1,895
198	0	198	Cost of Collection	198	0	198
(1,642)	0	(1,642)	Transitional Protection Payment	(1,211)	0	(1,211)
330	0	330	Renewable Energy cost	320	0	320
60,674	76,267	136,941		59,803	81,297	141,100
2,596	729	3,325	(Surplus) / Deficit Arising During the Year	(2,694)	213	(2,481)
(885)	(591)	(1,476)	Opening Fund Balance at 1 April	1,710	138	1,848
1,711	138	1,849	Closing Fund Balance at 31 March	(984)	351	(633)

WINCHESTER CITY COUNCIL STATEMENT OF ACCOUNTS 2018/19
COLLECTION FUND FOR THE YEAR ENDED 31 MARCH 2019

C1. COUNCIL TAX

Council Tax income derives from charges raised according to the value of residential properties, which have been classified into 8 valuation bands, using 1 April 1991 values for this specific purpose. Individual charges are calculated by estimating the amount of income required to be taken from the Collection Fund for the forthcoming year and dividing this by the Council Tax base.

The tax base is arrived at by adjusting the total number of properties in each band by a proportion to convert the number to a band D equivalent, which is then adjusted for discounts and collection rate. The basic amount of tax for a band D property, which will vary according to Parish (average for district £1,644.20) is then multiplied by the proportion specified for the particular band to give an individual amount due. For 2018/19, Council Tax bills were based on the following dwellings and proportions:

Band	Estimated Number of Taxable Properties after Discounts and Exemptions	Ratio Equivalent	Number of Band D Equivalent Dwellings
Disabled A	0.75	5/9	0.42
A	1,937.15	6/9	1,291.43
B	5,612.15	7/9	4,365.01
C	10,530.39	8/9	9,360.35
D	5,406.58	1	5,406.58
E	7,900.18	11/9	9,655.78
F	6,151.59	13/9	8,885.64
G	5,050.77	15/9	8,417.95
H	620.8	18/9	1,241.60
Ministry of Defence			348.66
	42,210.36		48,973.42
Less adjustment for collection rates			(583.52)
			48,389.90

C2. NON-DOMESTIC RATES (NDR)

For 2018/19, the standard Non Domestic Rate multiplier was 49.3p (47.9p in 2017/18) and the small business multiplier was 48.0p (46.6p in 2017/18). The total estimated non-domestic rateable value in the district as at 31 March 2019 was £153.4 million (£151.3 million as at 31 March 2018).

C3. SHARE OF ESTIMATED COLLECTION FUND (SURPLUS)/DEFICIT

	2018/19		
	Business Rates £000	Council Tax £000	Total £000
City Council Share - Collection Fund Adjustment Account	(397)	37	(360)
Preceptors' Share - Included within Debtors	(595)	246	(349)
Closing Fund balance as at 31 March 2019	(992)	283	(709)

	2017/18		
	Business Rates £000	Council Tax £000	Total £000
City Council Share - Collection Fund Adjustment Account	684	18	702
Preceptors' Share - Included within Creditors	1,027	121	1,148
Closing Fund balance as at 31 March 2018	1,711	139	1,850

ANNUAL GOVERNANCE STATEMENT 2018/19

1 Scope of Responsibility

- 1.1 Winchester City Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded, properly accounted for, and used economically, efficiently and effectively. Winchester City 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.
- 1.2 In discharging this overall responsibility, Winchester City Council is responsible for putting in place proper arrangements for the governance of its affairs and facilitating the effective exercise of its functions, which includes arrangements for the management of risk.
- 1.3 Winchester City Council has approved and adopted a code of corporate governance, which is consistent with the principles of the CIPFA/SOLACE Framework Delivering Good Governance in Local Government 2016.
- 1.4 This Statement explains how Winchester City Council has complied with the Code and also meets the requirements of regulation 6(1)(a) of the Accounts and Audit Regulations 2015 in relation to the review of its system of internal control in accordance with best practice, and that the review be reported in an Annual Governance Statement.
- 1.5 The Council has recently undertaken a comprehensive review of its Constitution which takes into account the recommendation of the Independent Report on Silver Hill and of the Local Government Association Peer Review in February 2017.
- 1.6 The updated Constitution was adopted by Council on 19 March 2019 and became effective from the start of the new municipal year.

2 The Purpose of the Governance Framework

- 2.1 The purpose of the governance framework is to ensure that the authority directs and controls its activities in a way that meets standards of good governance and is accountable to the community. It does this by putting in place an organisational culture and values which drive a responsible approach to the management of public resources, supported by appropriate systems and processes, and ensuring that these work effectively. It works with the Council's Performance Management Framework to ensure that the Council has in place strategic objectives reflecting the needs of the community and is monitoring the achievement of these objectives through delivery of appropriate, cost-effective services.
- 2.2 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 Winchester City 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.
- 2.3 The governance framework has been in place at Winchester City Council for the year ended 31 March 2019 and up to the date of approval of the Statement of Accounts.

3 The Principles of Good Governance

- 3.1 The CIPFA/SOLACE framework Delivering Good Governance in Local Government sets out seven core principles of good governance, these are:

Principle 1 – Behaving with integrity, demonstrating strong commitment to ethical values

Principle 2 – Ensuring openness and comprehensive stakeholder engagement

Principle 3 – Defining outcomes in terms of sustainable economic, social and environmental benefits

Principle 4 – Determining the interventions necessary to optimise the achievement of the intended outcomes

Principle 5 – Developing the entity’s capacity, including the capability of its leadership and the individuals within it

Principle 6 – Managing risks and performance through robust internal control and strong public financial management

Principle 7 – Implementing good practices in transparency, reporting, and audit to deliver effective accountability

4 Methodology for preparing the Annual Governance Statement

4.1 The Annual Governance Statement has been prepared using a process similar to that used in previous years, including;

- Heads of Teams completing a Statement of Assurance providing details as to the extent and quality of internal control arrangements operating within their teams during the previous year. Managers are asked to declare any weaknesses in the governance arrangements in their service areas, including overdue and significant internal audit actions.
- An internal control checklist is provided to Heads of Teams to support the completion of their Statement of Assurance. The checklist requires the manager to self assess the arrangements in their team against a number of criteria including risk and performance management, financial control and staffing.
- Review of the annual Internal Audit report and quarterly internal audit progress reports.
- The Council’s Audit and Governance Committee considers the draft Annual Governance Statement at its meeting in the spring and is given the opportunity to give its input to the Statement and to consider whether it accurately reflects the Council’s control environment.
- The Audit and Governance Committee approves the Annual Governance Statement in the summer and is signed off by the Chief Executive or Section 151 officer and Leader of the Council.

5 The Governance Framework

5.1 There are a number of key elements to the systems and processes that comprise the Council’s governance arrangements and these are underpinned by the core principles of good governance which are:-

- Focusing on the purpose of the authority and on outcomes for the local community and creating and implementing a vision for the local area.
- Members and Officers working together to achieve a common purpose with clearly defined functions and roles.
- Promoting values for the authority and demonstrating the values of good governance through upholding high standards of conduct and behaviour.
- Taking informed and transparent decisions which are subject to effective scrutiny and managed risk.
- Developing the capacity and capability of Members and officers to be effective.
- Engaging with local people and other stakeholders to ensure robust public accountability

5.2 The Council’s Constitution explains existing policy making and delegation procedures and the matters which must be dealt with by the full Council. It documents the role and responsibilities of Cabinet, portfolio holders, each committee and Members and officers. The Council has approved a protocol governing relationships between Members and Officers as part of its Constitution and has adopted codes of conduct for both Officers and Members which facilitate the promotion, communication and embedding of proper standards of behaviour. Officers have job descriptions and there are clearly defined schemes of delegation, all of which are reviewed from time to time.

5.3 The Council’s Constitution incorporates clear guidelines to ensure that business is dealt with in an open manner except in circumstances when issues should be kept confidential. Meetings are open to the public

**WINCHESTER CITY COUNCIL
ANNUAL GOVERNANCE STATEMENT**

except where personal or confidential matters are being discussed. All Cabinet /committee agendas, minutes and portfolio holder decisions are published promptly on the Council's website. In addition, senior officers of the Council can make decisions under delegated authority. The over-arching policy of the Council is decided by the full Council.

- 5.4 The Scrutiny Committee and Audit and Governance Committee hold Portfolio Holders to account for delivery of the Council's policy framework within the agreed budget, and protocols are in place for any departure from this to be properly examined.
- 5.5 The Council engages with its communities through a number of channels, including community planning, consultation events, surveys and campaigns relating to specific initiatives.
- 5.6 The Council Strategy is supplemented by more detailed information on the key projects and programmes of work that the authority will be delivering during the year – with actions to achieve priority outcomes set out in service plans. More detailed business plans are drawn up by teams across the Council, with objectives set for individual members of staff through the annual appraisal process. This process also looks at the development and training needs of staff, with a programme of training then put in place to meet these needs.
- 5.7 Progress against the Council Strategy outcomes and budgets is monitored regularly by the Executive Leadership Board and Portfolio Holders. The Scrutiny Committee receives quarterly reports focusing on delivery of key projects and programmes of work and drawing attention to other areas where progress is exceeding, or falling short of targets. Portfolio Holders also monitor progress in delivery.
- 5.8 The Council has an officer Strategic Leadership Team to monitor financial performance, service performance, progress of key corporate projects and risk management and to oversee the implementation of recommendations from Internal Audit reports.
- 5.9 The Council publishes an Annual Financial Report (incorporating the Statement of Accounts) annually within the statutory timescales. The Annual Financial Report incorporates the full requirements of best practice guidance in relation to corporate governance, risk management and internal control.
- 5.10 The Council is subject to independent audit by Ernst and Young and receives an Annual Audit Letter reporting on findings. The Council supplements this work with the Southern Internal Audit Partnership and ad hoc external peer reviews. The Audit Committee undertakes the core functions as identified in CIPFA's Audit Committees – Practical Guidance for Local Authorities.
- 5.11 The Council has set out the arrangements for managing risk in its Risk Management Policy which also includes a Risk Appetite Statement and is approved by Cabinet and reviewed annually.

6 Review of effectiveness

- 6.1 The authority has a statutory responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of effectiveness is informed by the work of Heads of Teams who have responsibility for the development and maintenance of a sound governance environment.
- 6.2 Staff awareness training has been undertaken to ensure that the Council complies adequately with the provisions of the General Data Protection Regulation (GDPR) and Freedom of Information Acts, and Equality requirements.
- 6.3 The Council has appointed the Strategic Director: Resources as the Section 151 officer with the statutory responsibility for the proper administration of the Council's financial affairs. CIPFA/SOLACE advises that the S151 officer should report directly to the Chief Executive and be a member of the 'Leadership Team', of equal status to other members. The Strategic Director: Resources is a member of the Executive Leadership Team.
- 6.4 The Council has appointed the Corporate Head of Resources as the statutory "Monitoring Officer" and has procedures to ensure that the Monitoring Officer is aware of any issues which may have legal implications.
- 6.5 All Cabinet reports are reviewed by the S151 and Monitoring Officer. All reports to Cabinet are required to demonstrate how the subject matter links to the Council Strategy and highlight resource implications. Officers are also asked to draw out risk, equality, sustainability, management and legal issues as appropriate. Similar procedures are in place for the Scrutiny and Regulatory Committees.

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6.6 The Council has whistle-blowing and anti-fraud and corruption policies. It has a formal complaints procedure and seeks to address and learn from complaints. The Council's Standards Committee deals with complaints relating to the conduct of Members.

6.7 Members' induction training is undertaken after each election. Members also receive regular updates and training on developments in local government.

6.8 Key roles in maintaining and reviewing the effectiveness is undertaken by:

The Council collectively responsible for the governance of the Council and the full Council is responsible for agreeing the Constitution, policy framework and budget. Manages risk in making operational and governance decisions together with proposing and implementing the policy framework, budget and key strategies.

The Cabinet receives regular monitoring reports on revenue and capital expenditure and performance.

**Audit and
Governance
Committee**

approves the annual audit plan, monitors the internal control environment through receipt of audit reports and this Statement, and keeps an overview of arrangements for risk management. It also approves this Statement and the Statement of Accounts.

External Audit

external audit is provided by Ernst Young LLP. Whilst the external auditors are not required to form an opinion on the effectiveness of the Council's risk and control procedures, their work does give a degree of assurance following the annual audit of the Council's financial accounts.

Internal Audit

The Southern Internal Audit Partnership provide the Council with an internal audit service which includes the Council's entire control environment. The Head of the Southern Internal Audit Partnership takes account of the Council's assurance and monitoring mechanisms, including risk management arrangements, for achieving the Council's objectives.

The Internal Audit Plan is based on the Corporate Risk Register and identifies Internal Audit's contribution to the review of the effectiveness of the control environment. The process includes reports to the Audit Committee on progress of audits. Regular summaries are also produced of the outcome of each audit, together with reviews of whether agreed recommendations have been implemented. Internal Audit provides an annual opinion on the internal control environment and issues that should be included in this Statement.

There is a requirement for internal audit to undertake an annual self assessment and independent external assessment every five year. Any areas of non-conformance must be reported as part of their annual report and opinion. In the light of feedback we have concluded that internal audit is an effective part of the Council's governance arrangements.

7 Significant Governance Issues

7.1 The Council faces a number of issues and areas of significant change that will require consideration and action as appropriate over the coming years and these are:

- **Partnership Working** – ensuring that an adequate and effective control framework to facilitate partnership working and that governance and control arrangements for individual partnerships are appropriate.
- **Project Governance and Reporting** – ensuring that the Council follows a robust set of processes, procedures and responsibilities that define the establishment, management and control of projects and programmes
- **Contract Management** – ensuring that the Council follows its contract management procedures as laid out in the updated Constitution and maintains a comprehensive contract register.

**WINCHESTER CITY COUNCIL
ANNUAL GOVERNANCE STATEMENT**

Annual Governance Statement 2018/19 – Action Plan

No.	Issue	Actions	Lead Officer	Target Date	Method of Assurance
1	Partnerships – the need to ensure that the Council maintains effective partnership working	Annual report covering the performance of key partnerships scheduled to be considered at The Scrutiny Committee.	Corporate Head of Engagement	September 2019	Progress report to Scrutiny Committee
		Review of partnership working included in the Internal Audit plan 2019/20	Corporate Head of Engagement	December 2019	Internal Audit Report
2	Capacity to deliver projects – ensuring that the Council has sufficient and appropriately qualified staff to deliver its programme of projects	Ensure regular project monitoring reports are considered by the Programme Management Group and that capacity issues are highlighted and remedial action agreed.	Strategic Director: Resources	Ongoing	Published monitoring reports
		Ensure that all significant projects follow the arrangements as set out in the Project Governance Policy highlighted requests for additional resources where appropriate.	Strategic Director: Resources	December 2019	Internal Audit Report
		Internal Audit scheduled to take place during 2019/20 covering Programme and Project Management and review compliance in relation to live/ ongoing projects.	Strategic Director: Resources	December 2019	Internal Audit Report
		Maintain and embed into the organisation membership of the Association for Project Management (APM) to promote further consistency of project management across the council.	Corporate Head of Strategic Support	September 2019	Ongoing
3	Procurement and Contract Management – ensuring that the Council maintains a comprehensive, publicly accessible contract register, following its own contract procedure rules.	Ensure that a comprehensive contract register of all contracts over £5,000 is maintained and available to the public.	Procurement Manager	Ongoing	Published Contract Register
		Review of platform for publication of public contract register to ensure that it is easy for staff to update and maintain	Procurement Manager	December 2019	Internal Report
		Internal Audit scheduled for later in 2019 to ensure that the Council follows its own Contract Procedure Rules as set out in the updated Constitution and is conforming to relevant contract management legislation.	Service Lead (Procurement & Transformation)	Ongoing	Training to be included as part of the corporate training programme Internal audit review and report

**WINCHESTER CITY COUNCIL
ANNUAL GOVERNANCE STATEMENT**

8 Assurance Summary

- 8.1 Good governance is about operating properly. It is the means by which the Council shows that it is taking decision for the good of its residents, in fair, equitable and open way. It also requires standards of behaviour that support good decision making – collective and individual integrity, openness and honesty. It is the foundation for the effective delivery of good quality services that meet the needs of the users. It is fundamental to demonstrating that public money is well spent. Without good governance, the Council would find it difficult to operate services successfully.
- 8.2 The Internal Audit Opinion for 2018/19 is that the Council’s framework of governance, risk management and management control is ‘adequate’ and that audit testing carried out during the year has demonstrated controls to be working in practice.
- 8.3 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 during the year and as part of our next annual review.

Signed:

Signed:

Laura Taylor
Chief Executive
Winchester City Council

Councillor L. Thompson
Leader of the Council
Winchester City Council

Dated:

Dated:

WINCHESTER CITY COUNCIL
GLOSSARY OF TERMS

Accounting Policies – are the specific policies and procedures used by the Council to prepare its financial statements. The accounting policies include methods, measurement systems and procedures for presenting information in the financial statements.

Accruals – is the concept that income and expenditure is recognised as it is earned or incurred, not as money is received or paid. An accrual is an expense or revenue item incurred in a period for which no invoice or payment changed hands in that period.

Actuary – a professional that provides valuations of defined benefit pension schemes. The valuation the actuary calculates the pension fund's assets and measures them against its liabilities.

Actuarial Gains and Losses – for a defined benefit pension scheme, the changes in actuarial deficits or surpluses that arise because: events have not coincided with the actuarial assumptions made for the last valuation (experience gains and losses); or the actuarial assumptions have changed.

Allowances for impairment losses – are the expected amount of outstanding debts which are not expected to be repaid.

Amortisation – is the writing down of an intangible asset's value over its useful life.

Amortised Cost – is a way of measuring financial instruments that ignores changes in fair value. It is defined as the amount at which a financial instrument is measured when it is first brought on to the Balance Sheet, adjusted for:

- Repayments of principal
- Cumulative amortisation of any difference between the initial amount and the maturity amount.

These differences might arise from transactions costs being set off against the principal amount or interest being payable at less than market rates.

Amortised Cost Financial Assets – investments for which gains and losses in fair value are not accounted for until the investment matures or is sold. Defined as financial assets:

- Held with a business model whose objective is to hold investments in order to collect their contractual cash flows, and
- That have the form of basic lending arrangements.

Asset – is a resource with economic value that the Council controls with the expectation that it will bring future benefit.

Assets Under Construction – represents construction work in progress, assets remain in such an account until they are put in service, at which time the costs of the assets are transferred into the respective property, plant and equipment accounts.

Available for Sale Financial Assets/ (Financial Instruments) – are investments that do not qualify as loans and receivables, they are investments purchased with the intent of being sold before they reach maturity.

Budget – prior to the start of each financial year, the Council is required to set a budget for its expenditure. It is a legal requirement of the Council to set a balanced budget, i.e. expenditure cannot be more than the Council's income.

Business Improvement District – is a defined area in which a levy is charged to all business rate payers in addition to the business rates bill. The levy is used to develop projects which will benefit businesses in the local area.

Business Rates – is the commonly used name of non domestic rates (NDR), business rates are a tax on local business properties, the tax is set by central government but collected by local authorities.

Capital Adjustment Account – is an unusable reserve which absorbs the timing differences arising from the different arrangements for accounting for the consumption of non-current assets and for financing the acquisition, construction or enhancement of those assets under statutory provisions.

Capital Allowance – is a provision which avoids the need for pooling non right-to-buy housing capital receipts.

Capital Charges – charges to revenue accounts to reflect the cost of long-term assets used in the provision of services. This includes the repayment of debt and the charge for depreciation.

WINCHESTER CITY COUNCIL
GLOSSARY OF TERMS

Capital Commitment – this is future capital expenditure that the Council has committed to at some time in the future which has not yet become an actual liability.

Capital Expenditure – this is expenditure on the acquisition of long-term assets, or expenditure which adds to and not merely maintains the value of existing long-term assets. The statutory definition also includes capital grants to other bodies and expenditure on the acquisition of some long-term investments.

Capital Financing Requirement (CFR) – this is the Council's underlying need to borrow to finance its capital expenditure.

Capital Grants and Contributions Unapplied – this reserve holds capital grants and contributions, that do not have outstanding conditions, but which have not yet been used to finance expenditure.

Capital Investment – this refers to expenditure on long-term assets.

Capital Programme – is the Council's expenditure plan on agreed capital schemes, showing the total cost of schemes and the projected phasing over current and future financial years.

Capital Receipts – are proceeds from the sale of (or reduction in the Council's interest in) long-term assets such as property, plant and equipment, investment property and capital investments.

Capital Receipts Reserve – is a usable reserve consisting of capital receipts from the sale of non current assets. The funds are available to finance future capital investment.

Cash and Cash Equivalents – are highly liquid financial instruments (cash and very short-term investments) that are repayable without penalty on notice of not more than 7 days and are convertible to known amounts of cash with insignificant risk of change in value.

Collection Fund – is an account maintained by the Council to record the amounts collected in Council Tax and Non-Domestic Rates and how the amounts have been distributed.

Community Asset – is a category of long-term asset that the Council intends to hold in perpetuity, that has no determinable useful life and that may have restrictions on disposal. Examples of community assets held by the Council are: parks; and community buildings.

Components – are significant parts of property, plant and equipment that are separately identified for depreciation.

Contingent Asset – a potential asset/ that is uncertain because it depends on an outcome of a future event not under the Council's control.

Contingent Liability – is a potential liability that may occur, depending on the outcome of an uncertain future event.

Corporate Bonds - Are debt securities issued by a corporation to raise funds and sold to investors.

Council Tax - is a local tax levied by local authorities on domestic properties.

Community Infrastructure Levy (CIL) – is a planning charge on new development which is used to help deliver infrastructure.

Credit Losses – A measure of how much the Council would lose if the amounts owed to it by debtors and borrowers are not repaid. Defined as the shortfall between all the cash flows that are contractually due to the Council and those that it expects to receive (discounted using the investment's effective interest rate).

Creditor – is an individual or body to whom, at the Balance Sheet date, the Council owes money.

Credit Rating – is a method of measuring the creditworthiness of a debt issuer.

Credit Risk – is the risk that a borrower may not repay a loan.

Current Asset – an asset that is realisable or disposable within one year of the Balance Sheet date.

WINCHESTER CITY COUNCIL
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Current Liability – is a liability that is due to be settled within one year of the Balance Sheet date.

Current Service Cost (Pensions) – the value of the standard benefits promised to members over the last accounting period, after offsetting the members' contributions, i.e. it is the Employer's share of the cost.

Debtor – is an individual or body whom, at the Balance Sheet date, owes money to the Council.

Deferred Capital Receipts Reserve – this reserve holds the gains recognised on the disposal of non-current assets but for which cash settlement has not yet taken place.

Defined Benefit Scheme (Pensions) - is a scheme whereby the employer promises a specified monthly benefit on retirement that is predetermined by a formula based on the employees earning history, tenure of service and age, rather than depending on investment returns.

Decent Home Standard – is a measure of general housing conditions introduced by the Government, it is a minimum standard that triggers action to improve social housing.

Depreciated Replacement Cost (DRC) – is a cost based method of arriving at a value for specialised assets that are generally held for the continuing use of their service potential and for which a market value cannot be obtained.

Depreciation – is the measure of the wearing out, consumption, or other reduction in value or the useful economic life of a long-term asset, whether arising from use, passage of time, obsolescence or other changes.

Developers Contributions - also known as S106 contributions are paid by developers to contribute towards the cost of additional infrastructure needed as a result of new developments.

Discounting – is the process of determining the present value of future payments.

Discretionary Benefits (Pensions) – are retirement benefits for which the employer has no legal, contractual or constructive obligation. The Council has restricted powers to make such discretionary awards in the event of early retirements. Any liabilities estimated to arise as a result of an award 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.

Doubtful Debt – is a debt that the Council is unlikely to recover. An allowance is made in the financial statements for doubtful debts which are the Council's estimate of debt that will not be collected.

Earmarked Reserves – are usable reserves consisting of amounts set aside from revenue (General Fund and Housing Revenue Account) to fund future expenditure on a specific purpose.

Effective Interest Method – The method that uses effective interest rates to calculate amortised cost of a financial instrument and allocates interest revenue or expense to the particular financial years over which the instrument is held.

Effective Interest Rate – the implied rate of interest in an arrangement calculated by reference to the cash flows within the arrangement as opposed to quoted rates of interest.

Equity Instrument – is a financial instrument that demonstrates an ownership interest in a business.

Estimated Market Value/Fair 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.

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

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

Existing Use Value (EUV) – is a measure of fair value for land and buildings, it is the amount that would be paid for the asset in its existing use.

Expected Credit Losses (ECLs) – the credit losses that the Council estimates will arise from the amounts that it is currently owed. ECLs are calculated by measuring the losses that would arise from different default scenarios and calculates a weighted average loss based on the probability of each scenario taking place.

Expected Rate of Return on Pension Assets (Pensions) – is the annual investment return on the fund assets attributable to the Council, based on an average of the expected long-term return.

Fair Value through Profit or Loss Financial Assets – Financial assets that do not qualify for measurement at Amortised Cost or Fair Value through Other Comprehensive Income.

Finance Costs – are the costs of borrowing money.

Finance Lease – a lease where substantially all of the risks and rewards of ownership of a fixed asset are transferred to the lessee.

Financial Instruments - are contracts that give rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

General Fund/ General Fund Balance – the general fund is the main revenue fund from which the cost of services is met. The accounts include separate funds for the Housing Revenue Account and the Collection Fund. The general fund balance is the accumulated credit balance on the General fund. It is the excess of income over expenditure after adjusting for movements to and from other reserves and other non cash items. The level of this balance is kept under review and considered in the light of a number of factors concerning the Council's level of exposure to risk and particularly to changes in income and expenditure.

Government Bonds – are UK Government sterling denominated bonds issued by HM Treasury in order to finance public expenditure, they are also known as gilts. The term gilt (or gilt-edged) is a reference to the primary characteristic of gilts as an investment - their security. They are generally issued for a set period and attract a set rate of interest during the agreed investment period. Interest is payable at set agreed periods and the principal is repaid at the end of the period.

Government Grants – are government assistance in either in the form of cash or of a transfer of assets. Grants either attract a condition or a restriction. Conditions are stipulations that specify that the future economic benefits or service potential. A restriction specifies the purpose of the grant.

Government Housing Capital Receipts Pool - A proportion of capital receipts relating to housing disposals paid to Central Government. From 1 April 2012, the Government made changes to the Right to Buy (RTB) scheme. The rules governing the allocation of capital receipts from these sales also changed, Councils were given the opportunity to sign an agreement with Government to enable "extra receipts" to be retained by the Council. The Council has signed such an agreement. Under the new rules, income from RTB receipts is split between the following uses:

1. A specified allowance to help meet the administrative costs of the disposal
2. Paid to Government (up to a specified limit)
3. Retained by the Council and available to fund any capital expenditure (up to a specified limit),
4. Available to the Housing Revenue Account to fund new capital spending or repay debt,
5. Available to fund new provision, either by the Council or another registered provider.

The Council has decided that receipts under category 3 above will be available to fund capital expenditure in the General Fund and that the resources for new provision (category 5 above) will be made available to the Housing Revenue Account. The Council is able to retain in full all other housing capital receipts providing it has sufficient capital allowances.

Grants and Capital Contributions Unapplied (Reserve) – is a usable reserve consisting of capital grants and contributions that have been received but have yet to be used/ applied to finance capital expenditure.

Grants and Contributions (in Advance) – are grants and contributions received in advance of expenditure taking place and which have conditions on their use that might require the Council to return them to the contributor.

Heritage Assets – are a category of long-term assets with cultural, environmental or historical qualities principally held and maintained for their contribution to knowledge and culture.

WINCHESTER CITY COUNCIL
GLOSSARY OF TERMS

Housing Revenue Account (HRA) - The HRA is a record of revenue expenditure and income relating to the Council's housing stock. Its purpose is to ensure that expenditure on managing tenancies and maintaining dwellings is balanced by rents charged to tenants. It is ring-fenced from the rest of the General Fund to ensure that rents cannot be subsidised from Council Tax (or vice versa).

International Accounting Standards 19 (IAS 19) Adjustments – IAS 19 outlines the accounting requirements for employee benefits including post-employment benefits. The adjustments represent the removal of employer pension contributions and replacing them with the current service cost and past service cost.

Impairment – is a reduction in the recoverable amount of a long-term asset below its carrying value in the Balance Sheet.

Infrastructure Assets - are a category of long-term assets that cannot be taken away or transferred and whose benefits can only be obtained by continued use of the asset created, i.e. there is no prospect of sale or alternative use. Examples of infrastructure assets include highways and footpaths.

Intangible Assets – are a category of long-term assets that are identifiable, but have no physical substance (e.g. Software licences).

Interest Costs (Pensions) – represents the unwinding of the discounting on the value placed on the benefits over the period, as they become closer to being paid.

International Financial Reporting Standards (IFRS) – are a set of international accounting standards that govern the accounting treatment and reporting of transactions in financial statements.

Inventories – are assets in the form of materials or supplies to be consumed in a production process or rendering of services.

Investment property – is a category of long-term assets, which is held for its investment potential and is not used in the delivery of services.

Lessee – is an entity that holds an agreement that allows the use of an asset for a period of time in exchange for a payment or series of payments.

Lessor – is an entity that leases an asset to a lessee.

Liabilities – are the Council's debts and obligations.

Loans and Receivables – is a category of financial instrument that has fixed or determinable payments but is not quoted on an active market.

Long-Term Assets – is the value of the Council's property, equipment and other capital assets minus depreciation, which are expected to be useable for more than one year after the balance sheet date.

Long-Term Borrowing – is the total of loans repayable after more than one year of the Balance Sheet date.

Long-Term Debtor – is an individual or body that owes money to the Council, but which is not due within one year of the Balance Sheet date.

Long-Term Investments – are financial instruments with a maturity date after more than one year of the Balance Sheet date.

Major Repairs Reserve – This is a statutory reserve used to finance the HRA capital program.

Materiality – relates to the significance of transactions and balances contained in the financial statements.

Monitoring Officer – this is a statutory role; this officer is responsible for ensuring that the Council operates within the law.

Net Assets – is the amount by which the total assets exceed the total liabilities in the Balance Sheet.

Net Book Value – this is the cost or valuation of an asset less cumulative depreciation.

Net Current Replacement Cost – is the cost of replacing or recreating the particular asset in its existing condition and in its existing use.

Non Current Asset – an asset which is not expected to be consumed within one year of the Balance Sheet date.

Non Domestic Rates – also known as Business Rates, this is a tax on local business properties, the tax is set by the government but collected by local authorities.

Non Ring-fenced Government Grants – grant monies paid by the government to support the Council's general revenue expenditure.

Operating Leases – this is a lease contract that allows for the use of an asset but does not convey rights of ownership of the asset.

Overheads – are indirect costs which cannot be directly attributed to a service.

Portfolio/ Portfolio Holder – portfolios are groupings of services determined by members of the Council. A member of the Council's Cabinet is responsible for each of the portfolios and is the portfolio holder.

Past Service Cost (Pensions) – is the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years. Those decisions may include additional enhanced benefits on retirement or any discretionary benefits granted.

Pension Scheme Liability – is the difference between the total amounts due to be paid to retirees and the assets available to meet those payments.

Pension Reserve – an unusable reserve that reflects the net liability/asset in the pension fund.

Precepts/Preceptors – are amounts levied on the Council, by other Local Authorities (preceptors), which the Council is required to collect and distribute tax for.

Prior Period Adjustment – is an adjustment that arises from a change in accounting policies or to correct a material error. Prior period figures are corrected by amending opening balances and comparative amounts for the prior period.

Property, Plant and Equipment (PPE) – are tangible long-term assets that are used in the provision of services and are expected to be used for more than one year.

Provision – is where the Council has a probable but uncertain economic obligation, and an estimate of that obligation is set aside to meet a future liability.

Provision for Non Domestic Rates Appeals - Local Authorities are liable for the cost of refunds from successful appeals against business rates valuations. A provision is recognised as an estimate of the Council's proportionate share of the potential liability.

Provision for the Financing of Capital Investment - Council's are required to set aside a prudent amount of revenue each year for the repayment of debt (as measured by the underlying need to borrow, rather than actual debt). This is also known as the Minimum Revenue Provision.

Public Works Loan Board (PWLb) – is a government body that issues central government loans to local authorities.

Remuneration – are amounts paid to or receivable by an employee and amounts due by way of expenses allowances (as far as those amounts are chargeable to UK Income Tax) and the monetary value of any other non-cash benefits.

Rent Allowances – are housing benefit payments relating to property rents where the Council is not the landlord.

Rent Rebates – are housing benefit payments relating to property rents where the Council is the landlord.

WINCHESTER CITY COUNCIL
GLOSSARY OF TERMS

Residual Value - is the amount that the council expects to receive for an asset at the end of its useful life less any anticipated disposal costs.

Retirement Benefits – are all forms of consideration given by an employer in exchange for services rendered by employees that are payable after the completion of employment. Retirement benefits do not include termination benefits payable as a result of either:

- i) an employer's decision to terminate an employee's employment before normal retirement date; or
- ii) an employer's decision to accept voluntary redundancy in exchange for those benefits, because these are not given in exchange for services rendered by employees.

Revaluation Reserve – this is an unusable reserve to reflect movements in Property, Plant and Equipment assets resulting from upward revaluations, and downward revaluations to the extent that there has been a previous upward revaluation,

Revenue Expenditure Funded from Capital under Statute (REFCUS) – this is expenditure which may properly be capitalised in accordance with statute but where no tangible long-term asset is created.

Revenue Support Grant (RSG) – is a general government grant that is not ring-fenced. It is based on the Government's assessment of the Council's spending need, its receipt from NDR and its ability to generate income from Council Tax.

Scheme Liabilities (Pensions) – the liabilities of the defined benefit pension scheme for outgoings due after the valuation date. Scheme liabilities are measured using the projected unit method and reflect the costs of future benefits that the employer is committed to providing for.

Section 151 Officer – this is a statutory role, every local authority is required to make arrangements for the proper administration of its financial affairs; the Council's S151 officer has the responsibility for the administration of those affairs.

Settlement (Pensions) – arises when a Council enters into a transaction that eliminates all further legal or constructive obligation for part or all of the benefits provided under a defined benefit plan. Settlements have the effect of extinguishing a portion of the plan liabilities, usually by transferring plan assets to or on behalf of plan members to their new employer or an insurance company in settlement of the obligation.

Short-Term Borrowing – is a loan repayable within one year of the Balance Sheet date.

Short-Term Creditor – is an individual or body to whom the Council owes money that is due for payment within one year of the balance sheet date.

Short-Term Debtor – an individual or body that owes money to the Council that is due for payment within one year of the Balance Sheet date.

Short-Term Investments – are financial instruments with maturity dates within one year of the Balance Sheet date.

Soft Loan – is a loan with a rate of interest that is below the market rate.

Straight Line Basis – is a method used to apportion depreciation equally over the applicable number of periods.

Termination Benefits – are amounts payable as a result of a decision by the Council to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy.

Trading Account – is a separate account prepared to determine the gross profit or loss of a business concern.

Unusable Reserves – amounts set aside that the Council is not able to use to fund expenditure.

Unrealised Gains and Losses – are movements in the value of an asset but the assets have yet to be sold.

Usable Reserves – amounts set aside that the Council is able to use to fund expenditure.

Useful Life – the period over which the Council will derive benefits from the use of a long-term asset.

1. BUILDING CONTROL ACCOUNT

The Building (Local Authority Charges) Regulations 2010 require the setting of a scheme of charges, the recovery of costs and the disclosure of an annual statement in respect of the Building Regulation function. This scheme is renewed annually and the fee structure published on the Council's website.

Some of the activities of the Building Control Unit cannot be recharged. These include enforcement, advisory, consultative and public protection activities. The Council is expected to set the fee level to ensure that, taking one financial year with another, the fees as nearly as possible equate to the expenses incurred in performing its chargeable Building Control activities.

	2018/19
	£000
Chargeable Costs	521
Chargeable Income	<u>(502)</u>
Net (surplus) or deficit	20
Building Control Earmarked Reserve (deficit brought forward)	59
Deficit carried over to 2018/19	<u>79</u>

In order to support compliance with *the Building (Local Authority Charges) Regulations 2010 (SI 2010/404)* an earmarked reserve was created in 2011/12 to hold surpluses made on chargeable activity. Local Authorities are required to monitor the break-even position on chargeable activities and demonstrate taking 'one financial year with another' to ensure the chargeable service 'as nearly as possible equates to the costs incurred'.

This information has been approved by the Strategic Director (Resources), being the acting responsible officer under Section 151 of the Local Government Act 1972(4).

Signature: Date: 29 May 2019

Joseph Holmes
Strategic Director: Resources, Section 151 Officer

2. CHARGES FOR PROPERTY SEARCHES

The Local Authorities (England) (Charges for Property Searches) Regulation 8 allows the Council to charge for answering enquiries about a property. These charges are at the Council's discretion but must have regard to the costs involved. With respect to these charges the following information is required to be published for every financial year:

	2018/19
	£000
Income from charges under regulation 8 (answering queries)	308

This information has been approved by the Strategic Director (Resources), being the acting responsible officer under Section 151 of the Local Government Act 1972(4).

Signature: Date: 29 May 2019

Joseph Holmes
Strategic Director (Resources), Section 151 Officer



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REPORT TITLE: TREASURY MANAGEMENT OUTTURN REPORT 2018/19

25 JULY 2019

REPORT OF CABINET MEMBER: CLLR CUTLER – CABINET MEMBER FOR FINANCE AND RISK

Contact Officer: Neil Aitken Tel No: 01962 848099 Email naitken@winchester.gov.uk

WARD(S): ALL WARDS

PURPOSE

In accordance with the requirements of the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management, this report provides detail of the performance of the treasury management function, on the effects of the decisions taken and the transactions executed in the past year, and confirmation that there were no instances of non-compliance with the Council's Treasury Management Policy Statement and Treasury Management Practices, for the year 2018/19.

In 2018-19 the Council's investment strategy delivered £110k of additional income above budget. The level of borrowing undertaken was in line with the budget for the financial year; all borrowing related to the Housing Revenue Account and was undertaken in 2012.

RECOMMENDATIONS:

That Cabinet:

1. Note the Annual Treasury Outturn Report 2018/19.
2. Note that the limit on sums invested for over 364 days was breached by £35,000 from 12 March 2019 to 16 May 2019 and note the mitigating actions agreed to prevent this occurring again as detailed in paragraph 22.6.

IMPLICATIONS:

1 COUNCIL STRATEGY OUTCOME

- 1.1 Treasury management is an integral part of helping the deliver the Council Strategy and all of its outcomes. The Council set a target of achieving a 1% return on its investments in 2018/19 and achieved a return of 1.19%. This additional income is available to be used by Council in achieving its objectives.

2 FINANCIAL IMPLICATIONS

- 2.1 Effective treasury management ensures both the financial security and liquidity of the Council. The 2018/19 outturn shows £660k of income achieved against a budget of £550k; thus delivering an additional £110k of income above budget.

3 LEGAL AND PROCUREMENT IMPLICATIONS

- 3.1 None

4 WORKFORCE IMPLICATIONS

- 4.1 None

5 PROPERTY AND ASSET IMPLICATIONS

- 5.1 None

6 CONSULTATION AND COMMUNICATION

- 6.1 This report has been produced in consultation with Hampshire County Council's Investments & Borrowing team.

7 ENVIRONMENTAL CONSIDERATIONS

- 7.1 The Council's ethical investment strategy, including its environmental impact, will be considered as part of the Treasury Management Strategy in February 2020.

8 EQUALITY IMPACT ASSESSMENT

- 8.1 None

9 DATA PROTECTION IMPACT ASSESSMENT

- 9.1 None required

10 RISK MANAGEMENT

Risk	Mitigation	Opportunities
<i>Returns from investments are too low</i>	A diversified strategy that attempts to manage the balance between liquidity risk, credit risk and yield within the Council's risk appetite.	Returns 0.19% above budgeted levels
<i>A counterparty fails</i>	A diversified strategy that has relatively low levels of counter-party risk	
<i>Cash is not available</i>	A balanced portfolio of liquid and long term funds are held to ensure cash is available to utilise. The Council also mitigates this risk through cashflow forecasting	More accurate and immediate cashflow forecasting can help improve the return on investments through more active treasury management activity

11 SUPPORTING INFORMATION:

12 Introduction

- 12.1 The Council has adopted the key recommendations of the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice (the CIPFA Code), last updated in 2017.
- 12.2 The CIPFA Code requires the Council to approve a treasury management strategy before the start of the year and a semi-annual and annual treasury outturn report.
- 12.3 This report fulfils the Council's legal obligation under the Local Government Act 2003 to have regard to the CIPFA Code.

13 Summary

- 13.1 The Council's treasury management strategy was most recently updated and approved at a meeting of Full Council in February 2019. The Council has borrowed and invested sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of risk are therefore central to the Council's treasury management strategy.
- 13.2 Treasury management in the context of this report is defined as:

"The management of the organisation's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."

- 13.3 This annual report sets out the performance of the treasury management function during 2018/19, to include the effects of the decisions taken and the transactions executed in the past year.
- 13.4 Hampshire County Council's Investments & Borrowing Team has been contracted to manage the Council's treasury management balances since September 2014 but overall responsibility for treasury management remains with the Council. No treasury management activity is without risk and as such the effective identification and management of risk are integral to the Council's treasury management objectives.
- 13.5 Treasury activity has complied with the Council's Treasury Management Strategy for 2018/19 and 2019/20 and Investment Strategy for 2018/19 with one exception as detailed in paragraph 22.6, and has complied with all relevant statute, guidance and accounting standards. In addition, support in undertaking treasury management activities has been provided by the Council's treasury advisers, Arlingclose. The Council has also complied with all the prudential indicators set in its Treasury Management Strategy.

14 External Context

- 14.1 The following sections outline the key economic themes currently in the UK against which investment and borrowing decisions were made in 2018/19.

Economic Background

- 14.2 UK Consumer Price Inflation (CPI) for February 2019 was up 1.9% year/year, just above the consensus forecast but broadly in line with the Bank of England's February Inflation Report. Labour market data for the three months to January 2019 showed the unemployment rate fell to a new low 3.9% while the employment rate of 76.1% was the highest on record. The 3-month average annual growth rate for pay excluding bonuses was 3.4% as wages continue to rise steadily and provide some upward pressure on general inflation. Once adjusted for inflation, real wages were up 1.4%.
- 14.3 After rising to 0.6% in the third calendar quarter from 0.4% in the second, fourth quarter economic growth slowed to 0.2% as weaker expansion in production, construction and services dragged on overall activity. Annual GDP growth at 1.4% continues to remain below trend. Following the Bank of England's decision to increase Bank Rate to 0.75% in August, no changes to monetary policy have been made since.
- 14.4 While the domestic focus has been on Brexit's potential impact on the UK economy, which has weighed on sterling and UK markets, globally the first quarter of 2019 has been overshadowed by a gathering level of broader based economic uncertainty. The International Monetary Fund downgraded its forecasts for global economic growth in 2019 and beyond as a consequence.

Financial markets

- 14.5 Markets for riskier asset classes fell in December 2018, most notably for equities. The FTSE 100 (a good indicator of global corporate sentiment) returned -8.8% assuming dividends were reinvested; in pure price terms it fell around 13%. However, since the beginning of 2019 markets have rallied, and the FTSE 100 and FTSE All share indices were both around 10% higher than at the end of 2018 by the first week of April 2019.
- 14.6 Gilt yields continued to display significant volatility over the period on the back of ongoing economic and political uncertainty in the UK and Europe. After rising in October, gilts regained their safe-haven status throughout December and into the new year - the 5-year benchmark gilt yield fell as low as 0.80% and there were similar falls in the 10-year and 20-year gilts over the same period dropping from 1.73% to 1.08% and from 1.90% to 1.55%. The increase in Bank Rate pushed up money markets rates over the year and 1-month, 3-month and 12-month LIBID (London Interbank Bid) rates averaged 0.53%, 0.67% and 0.94% respectively over the period.

Credit background

- 14.7 Credit Default Swap (CDS) spreads drifted up towards the end of 2018 on the back of Brexit uncertainty before declining again in 2019 and continuing to remain low in historical terms. After hitting around 129 basis points in December 2018, the spread on non-ringfenced bank NatWest Markets plc fell back to around 96bps at the end of March, while for the ringfenced entity, National Westminster Bank plc, the CDS spread held relatively steady around 40bps. The other main UK banks, as yet not separated into ringfenced and non-ringfenced from a CDS perspective, traded between 33 and 79bps at the end of the period.
- 14.8 The ringfencing of the big four UK banks (Barclays, Bank of Scotland/Lloyds, HSBC and RBS/NatWest Bank plc) transferred their business lines into retail (ringfenced) and investment banking (non-ringfenced) entities.
- 14.9 In February, Fitch put the UK AA sovereign long-term rating on Rating Watch Negative as a result of Brexit uncertainty, following this move with the same treatment for UK banks and a number of government-related entities.
- 14.10 There were minimal other credit rating changes during the period. Moody's revised the outlook on Santander UK to positive from stable to reflect the bank's expected issuance plans which will provide additional protection for the its senior unsecured debt and deposits.

15 Local Context

- 15.1 At 31/03/2019 the Council's underlying need to borrow for capital purposes as measured by the Capital Financing Requirement (CFR) was £190.0m, while usable reserves and working capital which are the underlying resources available for investment were £39.2m (principal invested plus gains on

investments with a variable net asset value). These factors and the year-on-year change are summarised in Table 1 below.

Table 1: Balance Sheet Summary

	31/03/18 Balance £m	Movement £m	31/03/19 Balance £m
General Fund CFR	(13.2)	(13.9)	(27.1)
Housing Revenue Account CFR	(164.0)	1.1	(162.9)
Total CFR	(177.2)	(12.8)	(190.0)
Less: Resources for investment	40.5	(1.3)	39.2
Net borrowing	(136.7)	(14.1)	(150.8)

15.2 Net borrowing has increased overall due to an increase in General Fund CFR. CFR has risen as new capital expenditure increased, while no external borrowing was repaid during 2018/19. The Housing Revenue Account elected to pay down £1.1m of prior year unfinanced capital expenditure reducing its overall borrowing need.

15.3 The Council's strategy was to maintain borrowing and investments below their underlying levels, referred to as internal borrowing, in order to reduce risk and keep interest costs low. The treasury management position as at 31 March 2019 and the year-on-year change is shown in Table 2 below.

Table 2: Treasury Management Summary

	31/03/18 Balance £m	Movement £m	31/03/19 Balance £m	31/03/19 Rate %
Long-term borrowing	(156.7)	0.0	(156.7)	3.30
Short-term borrowing	0.0	0.0	0.0	0.0
Total borrowing	(156.7)	0.0	(156.7)	3.30
Long-term investments	17.9	(2.9)	16.0	3.17
Short-term investments	19.8	(3.7)	15.1	1.07
Cash and cash equivalents	2.8	5.3	8.1	0.77
Total investments	40.5	(1.3)	39.2	1.84
Net borrowing	(116.2)	(1.3)	(117.5)	

Note: the figures in the table above are from the balance sheet in the Council's statement of accounts, but adjusted to exclude operational cash.

15.4 The Council's internal borrowing policy is the reason for the variance between the positions shown in Tables 1 and 2. The movement that has taken place during 2018/19 in net borrowing shown in Table 1 has translated into a reduction in investment balances as shown in Table 2.

16 Borrowing Activity

16.1 At 31 March 2019 the Council held £156.7m of loans, the vast majority of which relates to the refinancing resettlement of the HRA in 2012. The year-end treasury management borrowing position and year-on-year change is shown in Table 3 below.

Table 3: Borrowing Position

	31/03/18 Balance £m	Movement £m	31/03/19 Balance £m	31/03/19 Rate %	31/03/19 WAM* years
Public Works Loan Board	156.7	0.0	156.7	3.30	17.53
Total borrowing	156.7	0.0	156.7	3.30	17.53

* Weighted average maturity

Note: The figures in the table above are from the balance sheet in the Council's statement of accounts but adjusted to exclude accrued interest.

16.2 The Council's chief objective when borrowing has been to strike an appropriately low risk balance between securing low interest costs and achieving cost certainty over the period for which funds are required. The flexibility to renegotiate loans should the Council's long-term plans change is a secondary objective.

16.3 Short-term interest rates have remained much lower than long-term rates and the Council has therefore considered it to be more cost effective in the near term to use internal resources than to use additional borrowing.

16.4 With the assistance of Arlingclose, the benefits of this internal borrowing were monitored regularly against the potential for incurring additional costs by deferring borrowing into future years, when long-term borrowing costs may be higher.

17 Investment Activity

17.1 The Council has held invested funds, representing income received in advance of expenditure plus balances and reserves held. During 2018/19 the Council's investment balances have ranged between £38.1m and £72.5m due to timing differences between income and expenditure. The year-end investment position and the year-on-year change are shown in Table 4 below.

Table 4: Investment Position (Treasury Investments)

	31/03/18 Balance £m	Movement £m	31/03/19 Balance £m	31/03/19 Rate %	31/03/19 WAM* years
Investments					
Short term investments					
- Banks and Building Societies:					
- Unsecured	4.9	1.1	6.0	0.96	0.30
- Secured	5.0	(3.0)	2.0	1.23	0.30
- Money Market Funds	0.9	6.2	7.1	0.79	0.00

- Local Authorities	6.5	0.5	7.0	1.01	0.89
- Corporate Bonds	4.0	(4.0)	-	-	-
- Cash Plus Funds	-	1.0	1.0	1.50	n/a
	21.3	1.8	23.1	0.97	0.39
Long term investments					
- Banks and Building Societies:					
- Secured	5.0	3.5	8.5	2.77	2.18
- Local Authorities	8.0	(6.5)	1.5	1.33	2.20
	13.0	(3.0)	10.0	2.55	2.18
High yield investments					
- Pooled Property Funds**	5.0	-	5.0	4.40	n/a
	5.0	-	5.0	4.40	n/a
TOTAL INVESTMENTS	39.3	(1.2)	38.1	1.84	0.95

* Weighted average maturity

** The rate provided for pooled property fund investments is reflective of the average dividend return

Note: the figures in the table above are from the balance sheet in the Council's statement of accounts but adjusted to exclude operational cash and accrued interest.

- 17.2 The CIPFA Code and government guidance both require the Council to invest its funds prudently, and to have regard to the security and liquidity of its treasury investments before seeking the optimum rate of return, or yield. The Council's objective when investing money is therefore to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults against the risk of receiving unsuitably low investment income.
- 17.3 Security of capital has remained the Council's main investment objective and has been maintained by following the Council's counterparty policy, as set out in its Treasury Management Strategy Statement for 2018/19.
- 17.4 Counterparty credit quality was assessed and monitored with reference to credit ratings, the analysis of funding structures and susceptibility to bail-in, credit default swap prices, financial statements, information on potential government support and reports in the quality financial press.
- 17.5 The Council also makes use of secured investments products that provide collateral in the event that the counterparty cannot meet its obligations for repayment.
- 17.6 To reduce risk, 60% of the Council's surplus cash is invested so that it is not subject to bail-in risk, as it is invested in local authorities, secured bank bonds and pooled funds. The exposure to bail-in risk has increased since the end of 2017/18 and is the result of the reduced availability of secured investments that provide an acceptable combination of security (credit rating) and return (coupon), coupled with the Local Authority lending market being quite flat

around year end. The bail-in risk has been mitigated by investing the majority of the balance in overnight money market funds and cash plus funds, which are subject to reduced bail in risk, or in short duration certificates of deposit. By comparison, only 47% of the cash held by other similar Local Authorities is not subject to bail-in risk.

- 17.7 The UK Bank Rate increased marginally by 0.25% in August 2018 to 0.75% and with short-term money market rates also remaining relatively low, there has been an ongoing impact on the Council's ability to generate income on cash investments.
- 17.8 Against this backdrop, the Council has sought to optimise returns commensurate with the objectives of security and liquidity, achieving an average rate of return of 0.83% on internally managed funds during 2018/19 (i.e. excluding external pooled funds) whilst also maintaining sufficient liquidity through the use of call accounts and money market funds.
- 17.9 In readiness for Brexit, and with the uncertainty around potential outcomes, the Council ensured there were enough accounts open at UK domiciled banks and money market funds to hold sufficient liquidity over the year end and that its account with the Debt Management Account Deposit Facility (DMADF) remained available for use in an emergency.
- 17.10 The progression of credit risk and return metrics for the Council's investments managed in-house (excluding pooled funds) are shown in the extracts from Arlingclose's quarterly investments benchmarking in Table 5 below.

Table 5: Investment Benchmarking (investments managed in-house)

	Credit Rating	Bail-In Exposure	WAM* (days)	Rate of Return
31.03.2018	AA	17%	441	0.72%
31.03.2019	AA	40%	354	1.01%
Similar Las	AA-	53%	86	0.86%
All Las	AA-	55%	29	0.85%

* Weighted average maturity

- 17.11 In order to minimise the risk of receiving unsuitably low investment income, the Council has continued to invest in the externally managed CCLA Property pooled fund as part of its high yielding strategy.
- 17.12 This investment allows the Council to diversify into asset classes other than cash without the need to own and manage the underlying investments, with £5m currently invested. A further £1m is held in cash plus funds
- 17.13 These funds are likely to be more volatile than cash in the short-term but generate regular revenue income whilst also providing diversification and the potential for enhanced returns over the longer term.
- 17.14 The £6m portfolio of externally managed funds generated an average return of 6.14% in the year to 31 March 2019, comprising 3.80% income return to support services in year, and 2.34% of capital growth. By comparison, the

average income return for internal investments was 0.83%, giving an average income return across the whole investment portfolio of 1.19%.

- 17.15 Although money can usually be redeemed from the pooled funds at short notice, the Council's intention is to hold them for at least the medium-term. Investments are made in the knowledge that capital values will move both up and down in the short term, but with the confidence that over a three- to five-year period total returns should exceed cash interest rates.
- 17.16 The performance and ongoing suitability of these pooled funds in meeting the Council's investment objectives is monitored regularly and discussed with Arlingclose.

18 Update on Investments with Icelandic Banks

- 18.1 The collapse of Icelandic banks in October 2008 put at risk £1m of the Council's short term investments. The Council had invested with the Heritable Bank Ltd which was placed into administration on 7 October 2008. To date the Council has received 15 distributions amounting to £0.98m equating to a return of 98 pence to 100 in the pound. There have been no further updates since the previous report and it is unlikely the Council will recover the remaining outstanding amount.

19 Financial Implications

- 19.1 The outturn for debt interest paid in 2018/19 was £5.2m on an average debt portfolio of £156.7m at an average interest rate of 3.32%, against a budgeted £5.2 on an average debt portfolio of £156.7m at an average interest rate of 3.3%.
- 19.2 The outturn for investment income received in 2018/19 was £660,000 on an average investment portfolio of £55.4m, therefore giving a yield of 1.19%, against a budgeted £550,000 on an average investment portfolio of £55m at an average interest rate of 1%. In comparison in 2017/18 investment income received was £619,000 on an average investment portfolio of £54.7m, therefore giving a yield of 1.13%.

20 Other Non-Treasury Holdings and Activity

- 20.1 The definition of investments in CIPFA's revised Treasury Management Code now covers all the financial assets of the Council as well as other non-financial assets which the Council holds primarily for financial return. This is replicated in MHCLG's Investment Guidance, in which the definition of investments is further broadened to also include all such assets held partially for financial return.
- 20.2 This includes service investments for operational and/or regeneration as well as commercial investments which are made mainly for financial reasons.

- 20.3 Further information on the Council's non-Treasury investments is included in CAB3168 - Q4 Financial and Performance Monitoring presented to Cabinet on 17 July 2019.

21 Compliance Report

- 21.1 The Council confirms compliance of all treasury management activities undertaken during 2018/19 with the CIPFA Code of Practice and the Council's approved Treasury Management Strategy.

- 21.2 Compliance with the authorised limit and operational boundary for external debt is demonstrated in Table 7 below.

Table 7: Debt Limits

	2018/19 Maximum £m	31/03/19 Actual £m	2018/19 Operational Boundary £m	2018/19 Authorised Limit £m	Complied
Borrowing	156.7	156.7	213.7	231.0	✓
Other long term liabilities	0.2	0.2	0.2	0.3	✓
Total debt	156.9	156.9	213.9	231.3	✓

- 21.3 Total debt has remained below the Capital Financing Requirement (see Table 1) during the period.

Ratio of Financing Costs to Net Revenue Stream

- 21.4 This is an indicator of affordability and highlights the revenue implications of existing and proposed capital expenditure by identifying the proportion of the revenue budget required to meet financing costs, net of investment income.

Table 8: Ratio of Financing Costs to Net Revenue Stream

	2018/19 Estimate %	2018/19 Actual %
General Fund	0.1%	(0.8%)
Housing Revenue Account	17.9%	17.7%

- 21.5 The Ratio of Financing Costs to Net Revenue Stream for the General Fund was negative as interest receivable exceeded interest payable and Minimum Revenue Provision.

22 Treasury Management Indicators

- 22.1 The Council measures and manages its exposures to treasury management risks using the following indicators.

Interest Rate Exposures

- 22.2 This indicator is set to control the Council's exposure to interest rate risk. The upper limits on fixed and variable rate interest rate exposures, expressed as the amount of net principal invested will be:

Table 8 – Interest Rate Exposures

	31/03/19 Actual	Impact of +/-1% interest rate change
Variable interest rate investment exposure	£27.1m	+/- £0.27m
Variable interest rate borrowing exposure	£0m	+/- £0.00m

- 22.3 Fixed rate investments and borrowings are those where the rate of interest is fixed for the whole financial year. Instruments that mature during the financial year are classed as variable rate.

Maturity Structure of Borrowing

- 22.4 This indicator is set to control the Council's exposure to refinancing risk. The upper and lower limits on the maturity structure of fixed rate borrowing will be:

Table 10: Maturity Structure of Borrowing

	31/03/19 Actual	Upper Limit	Lower Limit	Complied
Under 12 months	0.0%	25%	0%	✓
12 months and within 24 months	0.0%	25%	0%	✓
24 months and within 5 years	6.4%	25%	0%	✓
5 years and within 10 years	19.1%	30%	0%	✓
10 years and within 20 years	31.9%	50%	0%	✓
20 years and within 30 years	12.8%	50%	0%	✓
30 years and within 40 years	12.8%	75%	0%	✓
40 years and within 50 years	17.0%	100%	0%	✓

Principal Sums Invested for Periods Longer than 364 days

- 22.5 The purpose of this indicator is to control the Council's exposure to the risk of incurring losses by seeking early repayment of its investments.

Table 11: Principal Sums Invested for Periods Longer than 364 days

	2018/19	2019/20	2020/21
Actual principal invested beyond year end	£15m	£12m	£7m
Limit on principal invested beyond year end	£15m	£15m	£15m
Complied	x	✓	✓

- 22.6 The principal sum invested for longer than 364 days was £15.035m as at the 31 March 2019 and is now below £15m. This was the result of one investment made on 12 March 2019 shortly after the limit was revised from £20m to £15m as part of the Treasury Management Strategy update in February 2019 and fell back below on 16 May. The Council has sought assurances from Hampshire's Investment and Borrowing team that action has been taken to prevent this happening again and they have confirmed their internal controls have been reviewed. In addition, the matter has been discussed with Hampshire County Council's internal audit. The rolling internal audit plan includes a review of the treasury management function in 2019/20 and this matter will therefore be reviewed as part of this audit, which commences in July 2019; the results will be reported back to the Council's Audit & Governance Committee at the meeting immediately following completion of the review.

BACKGROUND DOCUMENTS:-

Previous Committee Reports:-

AUD119: Treasury Management Practices, 22 June 2015

CAB3013: Treasury Management Strategy 2018-19, 14 February 2018

CAB3064: Treasury Management Outturn 2017/18, 18 July 2018

AUD223: Treasury Management Mid-Year Monitoring Report 2018/19, 29 November 2018

CAB3133: Treasury Management Strategy 2019-20, 13 February 2019

Other Background Documents:-

None

APPENDICES:

None

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