

HAVANT BOROUGH COUNCIL
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Havant
BOROUGH COUNCIL

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GOVERNANCE, AUDIT AND FINANCE BOARD AGENDA

Membership: Councillor Briggs (Chairman)

Councillors Branson, Crellin, Keast, Kennett, Hart, Patel, Mrs Shimbart, Thomas and Carpenter

Meeting: Governance, Audit and Finance Board

Date: Wednesday 29 July 2020

Time: 5.45 pm

Venue: Remote Meeting - Via Skype for Business

The business to be transacted is set out below:

David Brown
Monitoring Officer

21 July 2020

Contact Officer: Mark Gregory 023 92446232
Email: mark.gregory@havant.gov.uk

	Page
1 Apologies	
To receive apologies for absence.	
2 Declarations of Interest	
Internal Auditors	
3 The Internal Audit Plan 2020-21	1 - 12
4 The Internal Annual Audit Report and Opinion 2019-20	13 - 30
5 The Internal Audit Charter 2020-21	31 - 42

External Auditors

6	Annual Audit Results Report 2018/19	43 - 104
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Governance

7	2018/19 Accounts	105 - 216
8	Limited Assurance Audit Reports 2019-20: Review and Suggestions for Improvement	217 - 222
9	Accounting Policies for 2019/20	223 - 244
10	Draft Annual Governance Statement 2019-20	245 - 268

GENERAL INFORMATION

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GENERAL INFORMATION

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Internet

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If there has been a deputation within six months of any previous appearance on the same or similar topic (irrespective of whether or not the member(s) of the deputation might be different) then no such new deputation will be received until that time limit has expired. However, "same or similar topic" does not apply to applications for planning permission considered by the Development Management Committee.

A copy of a deputation must be received by the Democratic Services Team not later than 48 hours before the start of the meeting (other than when the meeting is on a Monday, when notice has to be in by the previous Wednesday). Written deputations may be sent by email to the address set out below.

A deputation from a member of the public, agent or a County Councillor may be no longer than 750 words (including footnotes). A deputation from a Havant Borough Councillor, who is not a member of the meeting, shall be no longer than 1,500 words (including footnotes). A deputation may not contain images or photographs.

All written deputations will be published on the Council's website at least 24 hours before the start of the meeting. There will be no opportunity to respond to a written deputation after it has been published, unless the response is to correct a technical error and is received 4 hours before the start of the meeting.

Written Deputations may be sent to:

By Email to: DemocraticServices@havant.gov.uk

By Post to :

Democratic Services Officer
Havant Borough Council
Public Service Plaza
Civic Centre Road
Havant, Hants P09 2AX

Delivered at:

Havant Borough Council
Public Service Plaza
Civic Centre Road
Havant, Hants P09 2AX

marked for the Attention of the "Democratic Services Team"

Who To Contact If You Wish To Know The Outcome Of A Decision?

If you wish to know the outcome of a particular item please contact the Contact Officer (contact details are on page i of the agenda).

NON EXEMPT

HAVANT BOROUGH COUNCIL

GOVERNANCE, AUDIT AND FINANCE BOARD

29 July 2020

INTERNAL AUDIT PLAN 2020-21

**Deputy Head the of Southern Internal Audit
Partnership**

FOR DECISION

Key Decision: No

1.0 Purpose of Report

1.1 The purpose of this paper is to provide the Governance, Audit and Finance Board with the Internal Audit Plan 2020-21 (Appendix 1) for Havant Borough Council.

1.2 The aim of internal audit's work programme is to provide independent and objective assurance to management, in relation to the business activities, systems or processes under review that:

- The framework of internal control, risk management and governance is appropriate and operating effectively; and
- Risks to the achievement of the Council's objectives are identified, assessed and managed to a defined acceptable level.

2.0 Recommendation

2.1 That the Governance, Audit and Finance Board approve the Internal Audit Plan 2020-21.

3.0 Summary

3.1 The Internal Audit Plan provides the mechanism through which the Chief Internal Auditor can ensure the most appropriate use of internal audit resources to provide a clear statement of assurance on risk management, internal control and governance arrangements.

3.2 To ensure the Internal Audit Plan is aligned to the needs of the Council, the plan has been developed following consultation with the Executive Board and Heads of Service; a review of key documents including the Corporate Risk

Register; and our understanding of the organisation and key priorities for 2020-21.

3.3 The Internal Audit Plan will remain fluid and subject to on-going review, and amended in consultation with the relevant officers, to ensure it continues to reflect the needs of the Council. Amendments to the plan will be identified through the Chief Internal Auditor's continued contact and liaison with those responsible for the governance of the Council.

3.4 The Council's 'internal audit charter' ensures the Chief Internal Auditor has sufficient resource necessary to fulfil the requirements and expectations to deliver an internal audit opinion. Significant matters that jeopardise the delivery of the plan, or require changes to the plan will be identified, addressed and reported to the Management Team.

4.0 Implications

4.1 Resources:

Internal Audit is provided through the Southern Internal Audit Partnership. The audit plan consists of 300 audit days and remains fluid throughout the year to meet the changing needs of the Council.

4.2 Legal:

Compliance with the Accounts and Audit (England) Regulations 2015.

4.3 Strategy:

Internal audit plays a vital role in helping the organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

4.4 Risks:

The audit needs assessment follows a risk-based audit approach taking cognisance of the Council's risk register.

4.5 Communications:

None directly from this report.

4.6 Customers & Community:

None directly from this report although improvements to controls and governance arrangements will ensure more efficient and effective service delivery.

4.7 Integrated Impact Assessment (IIA):
n/a

5.0 Consultation

5.1 The report has been discussed and noted by the Management Team who met at the Executive Board on 25 February 2020.

Appendices:

Appendix 1 – Internal Audit Plan 2020-21

Agreed and signed off by:

Legal Services: David Brown, Head of Legal and;

Finance: Lydia Morrison, Chief Finance Officer.

Contact Officer: Antony Harvey
Job Title: Deputy Head of the Southern Internal Audit Partnership
Telephone: 01962 845701
E-Mail: antony.harvey@hants.gov.uk

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Internal Audit Plan

2020-21

Havant Borough Council

Havant
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**Southern Internal
Audit Partnership**

Page 5



Assurance through excellence
and innovation

Contents

Introduction	.....	2
Your Internal Audit Team	.....	3
Conformance with Internal Audit Standards	.....	3
Conflicts of Interest	.....	3
Developing the internal audit plan 2020-21	.....	4
Internal Audit Plan 2020-21	.....	5 - 7

Introduction

The role of internal audit is that of an:

'Independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes'.

The Council is responsible for establishing and maintaining appropriate risk management processes, control systems, accounting records and governance arrangements. Internal audit plays a vital role in advising the Council that these arrangements are in place and operating effectively.

The Council's response to internal audit activity should lead to the strengthening of the control environment and, therefore, contribute to the achievement of the organisation's objectives.

The aim of internal audit's work programme is to provide independent and objective assurance to management, in relation to the business, activities, systems and processes under review that:

- the framework of internal control, risk management and governance is appropriate and operating effectively; and
- risk to the achievement of the Council's objectives is identified, assessed and managed to a defined acceptable level.

The internal audit plan provides the mechanism through which the Chief Internal Auditor can ensure the most appropriate use of internal audit resources to provide a clear statement of assurance on risk management, internal control and governance arrangements.

Internal audit focus should be proportionate and appropriately aligned. The plan will remain fluid and subject to on-going review and amendment, in consultation with the relevant Heads of Service and Executive Board, to ensure it continues to reflect the needs of the Council. Amendments to the plan will be identified through the Southern Internal Audit Partnership's continued contact and liaison with those responsible for the governance of the Council.

Your Internal Audit Team

Your internal audit service is provided by the Southern Internal Audit Partnership. The team will be led by Antony Harvey, Deputy Head of the Southern Internal Audit Partnership, supported by Mark Norton, Interim Audit Manager.

Conformance with internal auditing standards

The Southern Internal Audit Partnership service is designed to conform to the Public Sector Internal Audit Standards (PSIAS). Under the PSIAS there is a requirement for audit services to have an external quality assessment every five years. In September 2015 the Institute of Internal Auditors were commissioned to complete an external quality assessment of the Southern Internal Audit Partnership against the PSIAS, Local Government Application Note and the International Professional Practices Framework.

In considering all sources of evidence the external assessment team concluded:

Page 8
*is our view that the Southern Internal Audit Partnership (SIAP) service generally conforms to **all** of these principles. **This performance is within the top decile of EQA reviews we have performed.** This is a notable achievement given the breadth of these Standards and the operational environment faced by SIAP.*

*There are **no instances** across these standards where we determined a standard below “generally conforms”, and 4 instances where the standard is assessed as “not applicable” due to the nature of SIAP’s remit.’*

Conflicts of Interest

We are not aware of any relationships that may affect the independence and objectivity of the team, which are required to be disclosed under internal auditing standards.

Developing the internal audit plan 2020/21

The Council have a clear framework and approach to risk management. The strategic risks assessed by the Council are a key focus of our planning for the year to ensure it meets the organisation's assurance needs and contributes to the achievement of their objectives. We will monitor the strategic risk register closely over the course of the year to ensure our plan remains agile to the changing landscape.

We have used various sources of information and discussed priorities for internal audit with the Executive Board, Head of Service and the Governance, Audit and Finance Board. Based on these conversations with key stakeholders, review of key corporate documents including the Risk Register, and our understanding of the organisation the Southern Internal Audit Partnership have developed an annual audit plan for the coming year.

The Council are reminded that internal audit is only one source of assurance and through the delivery of our plan we will not, and do not seek to cover all risks and processes within the organisation. We will however continue to work closely with other assurance providers to ensure that duplication is minimised and a suitable breadth of assurance is obtained.



Internal Audit Plan 2020/21

Audit	Indicative scope
Corporate / Governance	
Asset Management	Review of the arrangements in place to deliver the key objectives within the Asset Management Strategy (including the results of the 2019 CIPFA peer review and corresponding management actions).
Performance Management	Review of the revised Performance Management Framework for recording, monitoring and reporting performance of the delivery of strategic objectives, including links to the Transformation Programme.
Project / Programme Management	Review of project management framework and compliance with approved protocols for the delivery of projects on time, within budget and to the required standard, including links to the delivery of the Transformation Programme.
Partnerships / Partnership Management	Review of the governance and control framework to support the effective management of partnerships and delivery of partnership goals.
Norse South East - Governance	Governance review of the arrangements with Norse South East including performance frameworks.
Contract Management Arrangements	Review of management arrangements with contractors / third parties to ensure agreed outcomes are achieved and performance is in line with agreed standards.
Financial Stability	Annual review to include, over the audit cycle, medium-term financial strategy, budget setting / forecasting process and in year budget monitoring to ensure the Council achieves a balanced budget and financial stability. 20/21 focus on budget monitoring.
Fraud & Irregularity	Facilitation of National Fraud Initiative and completion of annual CIPFA fraud survey.

Audit	Indicative scope
Human Resources	
Human Resources	<p>Review of all HR activities over a three year cycle to include:-</p> <ul style="list-style-type: none"> • Absence Management • Recruitment • Training & Development • Use of Volunteers <p>20/21 audit plan includes a provision for two HR audits, which will include workforce development/organisational design review.</p>
Financial Management	
Business Rates	Cyclical coverage to meet external audit / regulatory requirements.
Income Collection and Banking	
Accounts Payable	
Accounts Receivable / Debt Management	Coverage to meet external audit / regulatory requirements. Annual reviews until processes have become embedded.
Reconciliations	
Treasury Management	
Payroll	
Information Technology	
Hosted IT Services	A review of the Council's preparations to move hosted services to SaaS (Software as a Service) platforms as part of the transformation programme.

Audit	Indicative scope
Cyber Attack Response Pathway	A review of the end to end process from the user response to resolution of a cyber security incident.
Service Continuity Planning (Loss of IT)	A review of how services are accounting for the loss of IT in their continuity plans, whether plans have been updated to reflect the current IT landscape and increased reliance on connectivity to the internet.
Service / Other Reviews	
Regeneration	Review of the governance framework supporting the achievement of the Council's Regeneration Policy and the management of the delivery of the projects to support this.
Building Control	20/21 audit to include whether the objectives outlined within the Business Case for the implementation of a new system have been met.
Management	
Management	Provision for management time including annual planning, liaison, reporting, audit committee and advice.
Total days	300

NON EXEMPT

HAVANT BOROUGH COUNCIL

GOVERNANCE, AUDIT AND FINANCE BOARD

29 July 2020

ANNUAL INTERNAL AUDIT REPORT AND OPINION 2019-20

Deputy Head of the Southern Internal Audit Partnership

FOR DECISION

Key Decision: No

1.0 Purpose of Report

1.1 The purpose of this paper is to provide the Governance, Audit and Finance Board with the Chief Internal Auditor's opinion on the adequacy and effectiveness of the Council's framework of risk management, internal control and governance for the year ending 31 March 2020.

2.0 Recommendation

2.1 That the Governance, Audit and Finance Board note the Chief Internal Auditor's annual report and opinion for 2019-20, attached as Appendix 1.

3.0 Summary

3.1 In accordance with proper internal audit practices, the Chief Internal Auditor is required to provide a written report reviewing the effectiveness of the system of internal control to inform the production of the Annual Governance Statement.

3.2 The Annual Report for 2019-20 (attached at Appendix 1) provides the Chief Internal Auditor's opinion on the adequacy and effectiveness the Council's framework of risk management, control and governance processes and summarises audit work from which that opinion is derived for the year ending 31 March 2020.

3.3 The Governance, Audit and Finance Board's attention is drawn to the following points:

- Internal audit was compliant with the Public Sector Internal Audit Standards during 2019-20;
- The Council's framework of governance, risk management and management control is considered to be 'Adequate' and audit testing has demonstrated controls to be working in practice; and
- Where internal audit work identified areas where management controls could be improved or where systems and laid down procedures were not

fully followed, appropriate corrective actions and a timescale for improvement were agreed with the responsible managers.

4.0 Implications

4.1 Resources:

Internal Audit is provided through the Southern Internal Audit Partnership. The audit plan consisted of 380 audit days and remained fluid throughout the year to meet the changing needs of the Council.

4.2 Legal:

Compliance with the Accounts and Audit (England) Regulations 2015.

4.3 Strategy:

Internal audit plays a vital role in helping the organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

4.4 Risks:

The audit needs assessment follows a risk based audit approach taking cognisance of the Council's risk register.

4.5 Communications:

None directly from this report.

4.6 Customers & Community:

None directly from this report although improvements to controls and governance arrangements will ensure more efficient and effective service delivery.

4.7 Integrated Impact Assessment (IIA):

n/a

5.0 Consultation

5.1 The report has been discussed and noted by the Management Team who met at the Executive Board on 14 July 2020.

Appendices: **Appendix 1 – Annual Internal Audit Report and Opinion 2019-20**

Agreed and signed off by: Legal Services: David Brown – Head of Legal and:
Finance: Lydia Morrison – Chief Finance Officer

Contact Officer: Antony Harvey
Job Title: Deputy Head of the Southern Internal Audit Partnership
Telephone: 01962 845701
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Annual Internal Audit Report & Opinion

2019 - 20

Havant Borough Council



Southern Internal Audit Partnership

Page 15

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Contents

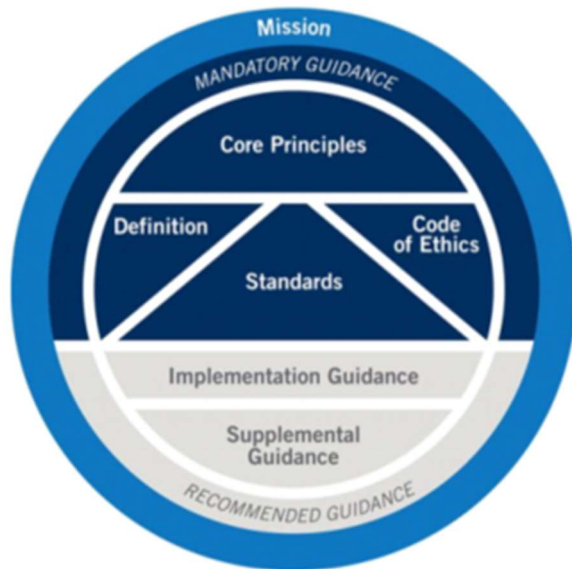
Section	Page
1. Role of Internal Audit	3
2. Internal Audit Approach	4
3. Internal Audit Opinion	5
4. Internal Audit Coverage and Output	6 - 7
5. Key Observations	8 -12
6. Quality Assurance and Improvement	13
7. Disclosure of Non-Conformance	14
8. Quality control	14
9. Internal Audit Performance	15
10. Acknowledgement	15
Annex 1 – 2019/20 Audit Reviews and Opinions	16

1. Role of Internal Audit

The requirement for an internal audit function in local government is detailed within the Accounts and Audit (England) Regulations 2015, which states that a relevant body must:

‘Undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance.’

The standards for ‘proper practices’ are laid down in the Public Sector Internal Audit Standards [the Standards – updated 2017].



The role of internal audit is best summarised through its definition within the Standards, as an:

‘Independent, objective assurance and consulting activity designed to add value and improve an organisation’s operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes’.

The Council is responsible for establishing and maintaining appropriate risk management processes, control systems, accounting records and governance arrangements. Internal audit plays a vital role in advising the Council that these arrangements are in place and operating effectively.

The Council’s response to internal audit activity should lead to the strengthening of the control environment and, therefore, contribute to the achievement of the organisation’s objectives.

2. Internal Audit Approach

To enable effective outcomes, internal audit provides a combination of assurance and consulting activities. Assurance work involves assessing how well the systems and processes are designed and working, with consulting activities available to help to improve those systems and processes where necessary.

A full range of internal audit services is provided in forming the annual opinion.

The approach to each review is determined by the Deputy Head of the Southern Internal Audit Partnership and will depend on the:

- level of assurance required;
- significance of the objectives under review to the organisation's success;
- risks inherent in the achievement of objectives; and
- level of confidence required that controls are well designed and operating as intended.

All formal internal audit assignments will result in a published report. The primary purpose of the audit report is to provide an independent and objective opinion to the Council on the framework of internal control, risk management and governance in operation and to stimulate improvement.



3. Internal Audit Opinion

The Deputy Head of the Southern Internal Audit Partnership is responsible for the delivery of an annual audit opinion and report that can be used by the Council to inform its governance statement. The annual opinion concludes on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control.

In giving this opinion, assurance can never be absolute and therefore, only reasonable assurance can be provided that there are no major weaknesses in the processes reviewed. In assessing the level of assurance to be given, I have based my opinion on:

- written reports on all internal audit work completed during the course of the year (assurance & consultancy);
- results of any follow up exercises undertaken in respect of previous years' internal audit work;
- the results of work of other review bodies where appropriate;
- the extent of resources available to deliver the internal audit work;
- the quality and performance of the internal audit service and the extent of compliance with the Standards; and
- the proportion of the Council's audit need that has been covered within the period.

Annual Internal Audit Opinion 2019-20

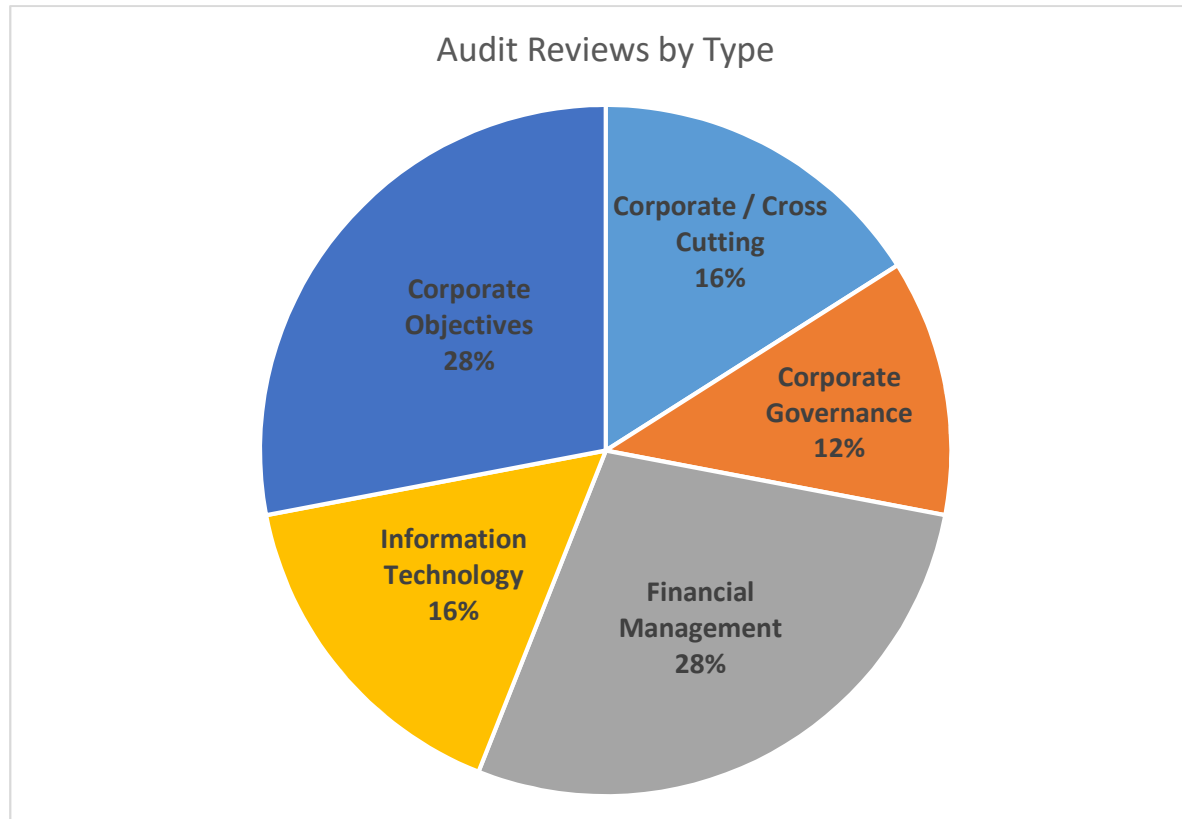
"I am satisfied that sufficient assurance work has been carried out to allow me to form a reasonable conclusion on the adequacy and effectiveness of Havant Borough Council's internal control environment.

In my opinion, Havant Borough Council's framework of governance, risk management and control is 'Adequate' and audit testing has demonstrated controls to be working in practice.

Where weaknesses have been identified through internal audit review, we have worked with management to agree appropriate corrective actions and a timescale for improvement."

4. Internal Audit Coverage and Output

The annual internal audit plan was prepared to take account of the characteristics and relative risks of the Council’s activities and to support the preparation of the Annual Governance Statement.



Work has been planned and performed so as to obtain sufficient information and explanation considered necessary in order to provide evidence to give reasonable assurance that the internal control system is operating effectively.

The 2019-20 Internal audit plan, approved by the Governance, Audit and Finance Board in April 2019, was informed by internal audits own assessment of risk and materiality in addition to consultation with management to ensure it aligned to key risks facing the organisation.

The plan has remained fluid throughout the year to maintain an effective focus.

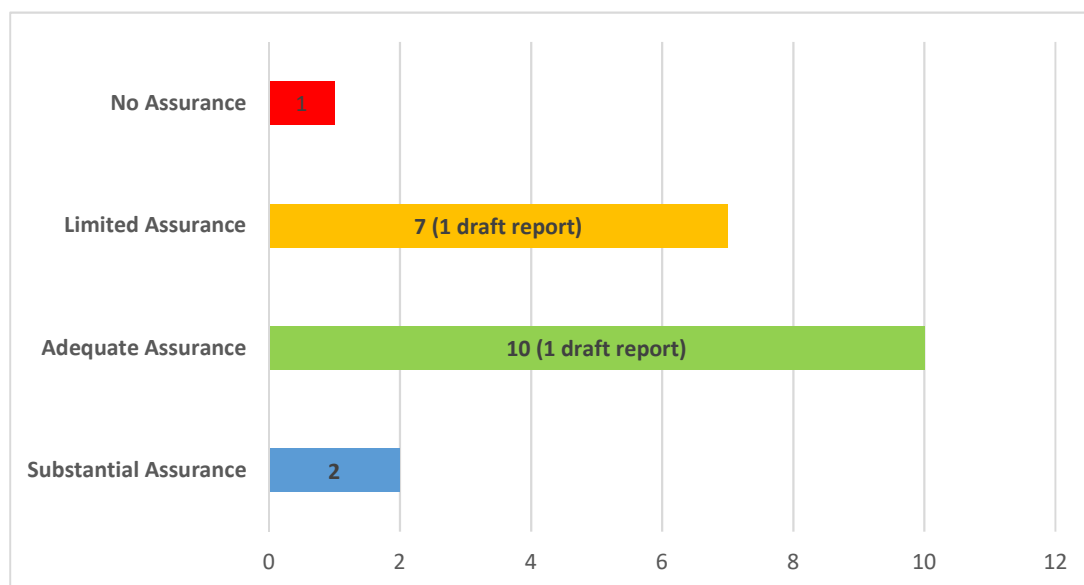
In delivering the internal audit opinion internal audit have undertaken 25* reviews during the year ending 31 March 2020.

The revised 2019-20 internal audit plan has been delivered with the following exceptions:

- Work is in progress for three reviews however due to COVID-19, the reviews have not progressed to the stage where draft reports can be issued (Computer Implementations; IT Security Governance; and IT Risk Management). The audits were scheduled to Q4 and in the case of Computer Implementations, rescheduled into 2020-21 to incorporate a new ICT system implementation. This work is in progress and will contribute towards the 2020-21 audit opinion.
- The Council has not implemented a new Performance Management framework or revised governance arrangements for Regeneration/Economic Development within the originally intended timescales therefore these areas will be reviewed once the new framework/governance arrangements have been implemented.

The opinion assigned to each internal audit review (including draft reports) is summarised below:

Page 21



Substantial – There is a sound system of control designed to achieve the objectives. Compliance with the control process is considered to be of a high standard and few or no material errors or weaknesses were found;

Adequate - While there is a basically sound system, there are weaknesses, which put some of the system objectives at risk, and/or there is evidence that the level of non-compliance with some of the controls may put some of the system objectives at risk;

Limited - Weaknesses in the system of controls are such as to put the system objectives at risk, and/or the level of non-compliance puts the system objectives at risk; or

No - Control is generally weak, leaving the system open to significant error or abuse, and/or significant non-compliance with basic controls leaves the system open to error or abuse.

*2 reviews did not culminate in an audit opinion as they relate to work conducted in respect of the National Fraud Initiative and completion of the CIPFA Fraud Survey.

A list of the 2019-20 assurance reviews undertaken and their respective opinions is provided in Annex 1.

5. Key Observations

We are pleased to report that despite the significant impact and subsequent challenges posed by the coronavirus pandemic, both to the way we work and the delivery of Council services, this has not inhibited our ability to provide an opinion on the Council's framework of risk management, governance and control for 2019-20. Our coverage of Information Technology is the only area during the year that has been significantly impacted due to the requested scheduling of three reviews and subsequent impact of COVID-19 with officer availability.

Internal Audit work found there to be a generally sound control environment in place across the majority of review areas during the year, which were found to be working effectively to support the delivery of corporate priorities. However, one review concluded with a 'No Assurance' and seven reviews concluded with 'Limited Assurance' Opinions as summarised for each audit below. A number of the key observations throughout the year relate to services that have a shared responsibility for delivery through arrangements set up as part of the Six Council Partnership. Recurring themes highlight a lack of clarity, accountability, available management information, and poor communication as key contributors to weakening the framework of governance, risk and control. Where weaknesses have been identified through internal audit review, we have worked with management to agree appropriate corrective actions and a timescale for improvement.

Treasury Management – No Assurance Opinion. A Treasury Management Strategy was in place, in line with statutory requirements and was formally approved by Council on 21st February 2019. The Strategy was in line with corporate strategic aims and the medium-term financial plan; included a range of prudential indicators for Capital and Treasury Management and documented the Council's risk appetite including cash limits. However, the review found no investments had taken place, therefore interest rate opportunities were not being evaluated and utilised in line with the strategy. All cash, excess to the general account, was held within a single institution's call account thereby exposing the Council to additional risk should the institution fail. It was not evident whether ongoing due diligence of the approved counterparties had taken place. The strategy stated that advice on credit worthiness of counterparties would be obtained from Capita's advisors however they did not appear to be used. Management information was not being produced in line with the service delivery plan with Capita, including mid-year and end of year outturn reports, which are a statutory requirement.

Human Resources – Limited Assurance Opinion. The recruitment of new starters, including where a new post is required, were appropriately authorised and vacancies were advertised by Capita in a timely manner. Interview shortlisting and scoring was undertaken and documented in accordance with the Recruitment Procedure. Whilst recruiting managers confirmed that interview notes were completed for each candidate, these were not retained in line with retention requirements and interview notes for successful candidates were not sent to Capita for inclusion

on the personnel files. Notifications of Appointment and New Starter Request forms were completed by the recruiting manager and sent to Capita however two pre-employment references were not always obtained, and Right to Work forms and Occupational Health forms were not consistently completed for new starters. Errors in contracts were generally identified by the recruiting manager and amended by Capita prior to issue however in one case, a contract containing errors had been issued despite those errors being highlighted by the recruiting manager. Recruiting managers confirmed that induction activities were undertaken however this was not documented.

Monthly performance reports were produced which were RAG rated to highlight whether each Performance Indicator (PI) had been met. Where performance reports showed numerous failures against the HR PIs, Rectification Plans were requested and produced and when deemed inadequate, the plans were rejected by the Council for revision by Capita. It is noted that significant performance improvement had been shown in the period from October 2019 to December 2019. However, we could not assess if PIs had been met in some cases due to either the lack or reliability of evidence provided by Capita. At the time of review, there were no PIs in place in relation to the recruitment stages undertaken by the in-house HR team.

There was no specific guidance regarding how personnel files should be organised, how Capita would ensure compliance with the Council's Retention Schedule or evidence to demonstrate records had been managed in line with the schedule. Personnel data was held electronically in a variety of locations by Capita. Additionally, some personnel data was being held by the Corporate Support Team and in-house HR Team, potentially making it difficult to effectively organise and manage the information.

Accounts Receivable / Debt Management (Sundry Debtors) – Limited Assurance Opinion (draft report). The audit confirmed that VAT had been correctly calculated for all invoices raised and that debtor's income, where received, was accurately reflected on the debtor's account, however in some instances, the invoiced fees or charges did not clearly correspond with the chargeable source.

Although procedure notes were available for raising invoices, reminders and outbound calling, individual Recovery Policies had not been drafted and agreed for all relevant services to reflect current service delivery arrangements through the 6 Councils partnership. Whilst automated reminders had been issued from June 2019, the process was not consistently followed and there was no regular management reporting to monitor whether reminders had been issued in accordance with procedures. Suppressed debt reports were not being regularly produced and checked to ensure that there was a valid reason for suppression. To aid debt recovery, telephone chasing of debt had been introduced from November 2019. Although Accounts Receivable performance was reported in line with Capita's Exchequer Service Delivery Plan, none of the existing KPIs related to debt levels or recovery timeliness / success.

The Constitution included authorisation levels for write-offs and it had been confirmed that the Chief Finance Officer authorised write-offs on an ad hoc basis on request from a budget holder. However, due to the lack of defined recovery policies and procedures, there were inconsistent processes for writing off debts.

Information Governance – Limited Assurance Opinion. Policies and procedures were in place to ensure Council staff were aware of key aspects of data protection. A central log for Freedom of Information requests and Subject Access Requests was being maintained. The Council's website contained easy to follow instructions on how personal data would be used, supported by a dedicated form to request restrictions or information regarding any personal data held. The data retention policy highlighted the information stored and instructions regarding retention and disposal. Disposal of confidential waste in paper form was facilitated through shredding or collection by a specialist waste contractor.

Although there was an overall Council Privacy Policy in place, service specific Privacy Notices, which explain the legislative requirements for the collection of information, had not been completed for all services. The initial wave of mandatory GDPR training had not been completed by all staff and it was not possible to accurately establish the number of non-completions. Freedom of Information requests were not always issued within the 20 working days deadline or Subject Access Requests replied to within the 30 working days deadline. According to the Information Governance Policy, Strategy and Framework the Information Asset Register should include the following elements required by services such as: Information sources, Software requirements, Physical infrastructure & furniture requirements, Utility services required, Qualification and skills of employees and Protection of the Council's reputation. Although the Register of Processing Activities covered some aspects, there was no dedicated Information Asset Register in place.

Lease Income – Limited Assurance Opinion. Property Lease cases had an up to date file maintained by a relevant responsible officer, containing sufficient supporting documentation. Legal Agreements were adequate, and the chargeable amount for leases and rent review/lease renewals dates were agreed and correctly documented. Rent reviews and lease renewals were taking place within expected timescales, although the CIPFA peer review and testing during the audit confirmed that there was no adequate diary system in place for generating alerts or notifications to facilitate effective and timely completion of the rent reviews/lease renewals process. The Property team are a small team with reliance upon a single officer for many of the administrative processes, posing a potential business continuity risk. There were no documented procedures related to the property lease responsibilities, although the Team were in the process of implementing recently drafted process flow charts. Data was not being regularly reviewed and checked, increasing the risk of errors not being identified and promptly addressed.

Invoices were issued on a timely basis, a month prior to their due date, and for the correct amounts. The initial debt recovery process, up to the escalation/legal stage, was in place and administered effectively. Capita's roles and responsibilities relating to the initial debt recovery process for lease income were clearly defined. However, contrary to the Service Delivery Plan, there was no liaison between the Capita Finance Team and the Property Team. It was unclear who within the Property Team was responsible for the legal stage of the debt recovery process and there are no clearly documented legal debt recovery policy / escalation procedures. It is noted however that, at the time of review, the Council had engaged an external consultant to assist with the production of these. Lease income received was coded appropriately in the General Ledger and aged debt reviews were undertaken and reported to management on a regular basis. However, lease income collected by external agents on behalf of the Council was not being checked for accuracy and completeness.

Animal Welfare (Licencing) – Limited Assurance Opinion. A formal animal welfare policy, setting out the Council's animal welfare intentions and providing clarity over applicants and officers' roles and responsibilities, was not in place. Application forms contained a checklist section to help applicants ensure all supporting documentation was submitted with the application form. Whilst the application checklist could be used by staff as an aide to ensure all required information had been received and scanned onto the Acolaid system, in some cases, copies of application forms and supporting documents to verify the application and license were either not held on the Acolaid system or were not fully completed. Several cases were also identified where there was no evidence of a license being issued. There were no performance indicators for the animal welfare service, no checklists to guide case completion and there were no arrangements for supervisory quality reviews of the inspection officers' work.

We were unable to confirm that all income had been correctly charged, promptly received and correctly recorded in the main accounting system as there was no reconciliation between licenses issued on Acolaid, invoices raised and income received on the finance system.

Neighbourhood Quality (Fly Tipping) – Limited Assurance Opinion. The 'Vision of the enforcement strategy' outlines the principles to be followed for fly tipping cases however at the time of review, no formal procedures or performance timescales were in place for investigation and enforcement. Notifications of fly tipping through the customer service system were referred for investigation promptly however there is no formal performance management reporting regarding fly tipping investigations. All investigation cases had individual folders that are held securely, with appropriate access restrictions. All evidence was held in evidence bags however there was no storage log of evidence held and photographs taken and collected for evidence were not always date and live time stamped. No supporting document/information was available to confirm why an individual/case was cautioned for fly tipping.

Health and Safety risk assessments are issued to officers annually however signed copies were not obtained as evidence that they had been read and understood. Related training had been provided and appropriate PPE had been issued to them. A communication protocol is in place with Norse SE regarding the identification and clearance of sites and contract KPIs are in place with Norse SE to monitor the timeliness of site clearance.

Food Safety Inspections – Limited Assurance Opinion. Food hygiene inspection records and documentation were recorded in Acolaid. However, the audit identified that inspections were not always completed within the legislative timescales, follow up visits were not consistently undertaken and there was inaccurate, inconsistent and incomplete record keeping within Acolaid. Quarterly compliance checks were undertaken to help ensure food safety officers were updating records accurately, however there was no record to demonstrate that any issues highlighted had been resolved. Whilst relevant data was uploaded on an annual basis to the Food Standards Agency within the required deadlines, there were discrepancies between the information held in Acolaid, internal reports and the annual Food Standards Agency LAEM return.

6. Quality Assurance and Improvement

The Quality Assurance and Improvement Programme (QAIP) is a requirement within ‘the Standards’.

The Standards require the Head of the Southern Internal Audit Partnership to develop and maintain a QAIP to enable the internal audit service to be assessed against the Standards and the Local Government Application Note (LGAN) for conformance.

The QAIP must include both internal and external assessments: internal assessments are both on-going and periodical and external assessment must be undertaken at least once every five years. In addition to evaluating compliance with the Standards, the QAIP also assesses the efficiency and effectiveness of the internal audit activity, identifying areas for improvement.

An ‘External Quality Assessment’ of the Southern Internal Audit Partnership was undertaken by the Institute of Internal Auditors (IIA) in September 2015.

In considering all sources of evidence the external assessment team concluded:

“It is our view that the Southern Internal Audit Partnership (SIAP) service generally conforms to all of the principles contained within the International Professional Practice Framework (IPPF); the Public Sector Internal Audit Standards (PSIAS); and the Local Government Application Note (LAGN).

There are no instances across these standards where we determined a standard below “generally conforms”, and 4 instances where the standard is assessed as “not applicable” due to the nature of SIAP’s remit.”

In accordance with PSIAS, annual self-assessments have been completed since the external inspection concluding that the Southern Internal Audit Partnership continues to comply with all aspects of the IPPF, PSIAS and LGAN.

7. Disclosure of Non-Conformance

In accordance with Public Sector Internal Audit Standard 1312 [External Assessments] which requires 'an external quality assessment to be conducted at least once every five years by a qualified, independent assessor or assessment team from outside of the organisation' I can confirm endorsement from the Institute of Internal Auditors that:

'the Southern Internal Audit Partnership conforms to the, Definition of Internal Auditing; the Code of Ethics; and the Standards'

There are no disclosures of Non-Conformance to report.

8. Quality control

Our aim is to provide a service that remains responsive to the needs of the Council and maintains consistently high standards. In complementing the QAIP this was achieved in 2019-20 through the following internal processes:

- On-going liaison with management to ascertain the risk management, control and governance arrangements, key to corporate success;
- On-going development of a constructive working relationship with the External Auditors to maintain a cooperative assurance approach;
- A tailored audit approach using a defined methodology and assignment control documentation;
- Review and quality control of all internal audit work by professional qualified senior staff members; and
- A self-assessment against the Public Sector Internal Audit Standards.

9. Internal Audit Performance

The following performance indicators are maintained to monitor effective service delivery:

Performance Indicator	Target	2018-19 Actual	2019-20 Actual
Percentage of internal audit plan delivered	95%	100%	88%
Positive customer survey response			
<ul style="list-style-type: none"> Havant Borough Council 	90%	n/a	100%
<ul style="list-style-type: none"> SIAP – all Partners 	90%	99%	98%
Public Sector Internal Audit Standards	Compliant	Compliant	Compliant

Customer satisfaction has been assessed through response to questionnaires issued to a wide range of stakeholders including members, senior officers and key contacts involved in the audit process throughout the year.

10. Acknowledgement

I would like to take this opportunity to thank all those staff throughout the Council with whom we have made contact in the year. Our relationship has been positive, and management were responsive to the comments we made both informally and through our formal reporting.

Antony Harvey
Deputy Head of the Southern Internal Audit Partnership
June 2020

2019-20 Audit Reviews and Opinions

Substantial Assurance	Adequate Assurance	Limited Assurance	No Assurance
<ol style="list-style-type: none"> 1. Financial Stability 2. Norse South East - Transition / Mobilisation 	<ol style="list-style-type: none"> 1. Business Continuity Planning / Disaster Recovery 2. Health and Safety 3. Income Collection and Banking 4. Accounts Payable (draft report) 5. Payroll 6. IT Asset Management 7. Norse South East - Governance Arrangements 8. Licencing 9. Developers Obligations and Contributions / CIL 10. Bank Reconciliations 	<ol style="list-style-type: none"> 1. Human Resources 2. Information Governance 3. Lease Income 4. Animal Welfare (Licensing) 5. Accounts Receivable / Debt Management (Sundry Debtors) – (draft report) 6. Neighbourhood Quality (Fly Tipping) 7. Food Safety 	<ol style="list-style-type: none"> 1. Treasury Management

NON EXEMPT

HAVANT BOROUGH COUNCIL

GOVERNANCE, AUDIT AND FINANCE BOARD

29 July 2020

INTERNAL AUDIT CHARTER 2020-21
Deputy Head of the Southern Internal Audit
Partnership

ITEM NO

FOR DECISION

Key Decision: No

1.0 Purpose of Report

1.1 The purpose of this paper is to provide the Governance, Audit and Finance Board with the Internal Audit Charter for 2020-21.

1.2 The Internal Audit Charter formally defines the internal audit activity's purpose, authority and responsibility in line with the Public Sector Internal Auditing Standards [the Standards].

2.0 Recommendation

2.1 That the Governance, Audit and Finance Board approve the Internal Audit Charter for 2020-21.

3.0 Summary

3.1 With effect from 1 April 2013 internal audit services across the public sector have been governed by the Public Sector Internal Audit Standards (the Standards).

3.2 Within the Standards there is a requirement for an Internal Audit Charter - a formal document that defines the purpose, authority and responsibility of the internal audit activity. The proposed charter is attached at Appendix 1.

3.3 The Internal Audit Charter must be reviewed periodically (as a minimum annually) by the Chief Internal Auditor and presented to 'Senior Management' and 'the Board'. The Board is defined as

'the governance group charged with independent assurance on the adequacy of the risk management framework, the internal control environment and the integrity of financial reporting. At the Council this shall mean the Governance, Audit and Finance Board'.

4.0 Implications

4.1 Resources:

Internal Audit is provided through the Southern Internal Audit Partnership. The audit plan consists of 300 audit days and remains fluid throughout the year to meet the changing needs of the Council.

4.2 Legal:

Compliance with the Accounts and Audit (England) Regulations 2015.

4.3 Strategy:

Internal audit plays a vital role in helping the organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

4.4 Risks:

The audit needs assessment follows a risk based audit approach taking cognisance of the Council's risk register.

4.5 Communications:

None directly from this report.

4.6 Customers & Community:

None directly from this report although improvements to controls and governance arrangements will ensure more efficient and effective service delivery.

4.7 Integrated Impact Assessment (IIA):

n/a.

5.0 Consultation

- 5.1** The report has been discussed and approved by the Management Team who met at the Executive Board on 25 February 2020.

Appendices:

Appendix 1 – Internal Audit Charter

Agreed and signed off by:

Legal Services: David Brown, Head of Legal and;

Finance: Lydia Morrison, Chief Finance Officer.

Contact Officer: Antony Harvey
Job Title: Deputy Head of the Southern Internal Audit Partnership
Telephone: 01962 845701
E-Mail: antony.harvey@hants.gov.uk

Appendix 1

Internal Audit Charter

Introduction

The Public Sector Internal Audit Standards (the Standards) provide a consolidated approach to audit standards across the whole of the public sector providing continuity, sound corporate governance and transparency.

The Standards form part of the wider mandatory elements of the International Professional Practices Framework (IPPF) which also includes the mission; core principles; definition of internal audit; and Code of Ethics.

The Standards require all internal audit activities to implement and retain an 'Internal Audit Charter'. The purpose of the Internal Audit Charter is to formally define the internal audit activity's purpose, authority and responsibility.

Mission and Core Principles

The IPPF 'Mission' aims *'to enhance and protect organisational value by providing risk-based and objective assurance, advice and insight.'*

The 'Core Principles' underpin delivery of the IPPF mission:

- Demonstrates integrity;
- Demonstrates competence and due professional care;
- Is objective and free from undue influence (independent);
- Aligns with the strategies, objectives and risks of the organisation;
- Is appropriately positioned and adequately resourced;
- Demonstrates quality and continuous improvement;
- Communicates effectively;
- Provides risk-based assurance;
- Is insightful, proactive, and future-focused; and
- Promotes organisational improvement.

Authority

The requirement for an internal audit function in local government is detailed within the Accounts and Audit (England) Regulations 2015, which states that a relevant body must:

'undertake an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control'.

The standards for 'proper practices' in relation to internal audit are laid down in the Public Sector Internal Audit Standards (updated 2017).

Purpose

The Council is responsible for establishing and maintaining appropriate risk management processes, control systems, accounting records and governance arrangements. Internal audit plays a vital role in advising the Council that these arrangements are in place and operating effectively. The Council's response to internal audit activity should lead to the strengthening of the control environment and, therefore, contribute to the achievement of the organisations objectives.

This is achieved through internal audit providing a combination of assurance and consulting activities. Assurance work involves assessing how well the systems and processes are designed and working, with consulting activities available to help to improve those systems and processes where necessary.

The role of internal audit is best summarised through its definition within the Standards, as an:

'independent, objective assurance and consulting activity designed to add value and improve an organisations operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes'

Responsibility

The responsibility for maintaining an adequate and effective system of internal audit within Havant Borough Council lies with the authority's Chief Finance Officer (S151 Officer).

For the Council, internal audit is provided by the Southern Internal Audit Partnership.

The Chief Internal Auditor (Deputy Head of the Southern Internal Audit Partnership) is responsible for effectively managing the internal audit activity in accordance with the 'Mission', 'Core Principles', 'Definition of Internal Auditing', the 'Code of Ethics' and 'the Standards'.

Definitions

For the purposes of this charter the following definitions shall apply:

The Board – the governance group charged with independent assurance on the adequacy of the risk management framework, the internal control environment and the integrity of financial reporting. At the Council this shall mean the Governance, Audit and Finance Board.

Senior Management – those responsible for the leadership and direction of the Council. At the Council this shall mean the Executive Board.

Position in the organisation

The Chief Internal Auditor reports functionally to the Board, and organisationally to the Chief Finance Officer (S151 Officer) who has statutory responsibility as proper officer under Section 151 of the Local Government Act 1972, for ensuring an effective system of internal financial control and proper financial administration of the Council's affairs.

The Chief Internal Auditor has direct access to the Chief Executive who carries the responsibility for the proper management of the Council and for ensuring that the principles of good governance are reflected in sound management arrangements.

The Chief Internal Auditor has direct access to the Council's Monitoring Officer where matters arise relating to Chief Executive responsibility, legality and standards.

Where it is considered necessary to the proper discharge of the internal audit function, the Chief Internal Auditor has direct access to elected Members of the Council and in particular those who serve on committees charged with governance (i.e. the Governance, Audit and Finance Board).

Internal audit resources

The Chief Internal Auditor will be professionally qualified (Chartered Member of the Institute of Internal Auditors - CMIIA, Consultative Committee of Accountancy Bodies - CCAB or equivalent) and have wide internal audit and management experience, reflecting the responsibilities that arise from the need to liaise internally and externally with Members, senior management and other professionals.

The Chief Finance Officer (S151 Officer) will provide the Chief Internal Auditor with the resources necessary to fulfil the Council's requirements and expectations as to the robustness and scope of the internal audit opinion.

The Chief Internal Auditor will ensure that the internal audit service has access to an appropriate range of knowledge, skills, qualifications and experience required to deliver the audit strategy and operational audit plan.

The annual operational plan will identify the resources required to complete the work, thereby highlighting sufficiency of available resources. The Chief Internal Auditor can propose an increase in audit resource or a reduction in the number of audits if there are insufficient resources.

'*Senior Management*' and '*the Board*' will be advised where, for whatever reason, internal audit is unable to provide assurance on any significant risks within the timescale envisaged by the risk assessment process.

The annual operational plan will be submitted to '*Senior Management*' and '*the Board*', for approval. The Chief Internal Auditor will be responsible for delivery of the plan. The plan will be kept under review to ensure it remains responsive to the changing priorities and risks of the Council.

Significant matters that jeopardise the delivery of the plan or require changes to the plan will be identified, addressed and reported to '*Senior Management*' and '*the Board*'.

If the Chief Internal Auditor, '*the Board*' or '*Senior Management*' consider that the scope or coverage of internal audit is limited in any way, or the ability of internal audit to deliver a service consistent with the Standards is prejudiced, they will advise the Chief Finance Officer (S151 Officer) accordingly.

Independence and objectivity

Internal auditors must be sufficiently independent of the activities they audit to enable them to provide impartial, unbiased and effective professional judgements and advice.

Internal auditors must maintain an unbiased attitude that allows them to perform their engagements in such a manner that they believe in their work product and that no quality compromises are made. Objectivity requires that internal auditors do not subordinate their judgement on audit matters to others.

To achieve the degree of independence and objectivity necessary to effectively discharge its responsibilities, arrangements are in place to ensure the internal audit activity:

- retains no executive or operational responsibilities;
- operates in a framework that allows unrestricted access to *'Senior Management'* and *'the Board'*;
- reports functionally to *'the Board'*;
- reports in their own name;
- rotates responsibilities for audit assignments within the internal audit team;
- completes individual declarations confirming compliance with rules on independence, conflicts of interest and acceptance of inducements; and
- ensures the planning process recognise and address potential conflicts of interest through internal audit staff not undertaking an audit for at least two years in an area where they have had previous operational roles.

If independence or objectivity is impaired in fact or appearance, the details of the impairment will be disclosed to *'Senior Management'* and *'the Board'*. The nature of the disclosure will depend upon the impairment.

Due professional care

Internal auditors will perform work with due professional care, competence and diligence. Internal auditors cannot be expected to identify every control weakness or irregularity but their work should be designed to enable them to provide reasonable assurance regarding the controls examined within the scope of their review.

Internal auditors will have a continuing duty to develop and maintain their professional skills, knowledge and judgement based on appropriate training, ability, integrity, objectivity and respect.

Internal auditors will apprise themselves of the *'Mission'*, *'Core Principles'*, *'Definition of Internal Auditing'*, the *'Code of Ethics'* and *'the Standards'* and will work in accordance with them in the conduct of their duties.

Internal auditors will be alert to the possibility of intentional wrongdoing, errors and omissions, poor value for money, failure to comply with management policy and conflicts of interest. They will ensure that any suspicions of fraud, corruption or improper conduct are promptly reported to the Chief Internal Auditor in accordance with the Council's laid down procedures.

Internal auditors will treat the information they receive in carrying out their duties as confidential. There will be no unauthorised disclosure of information unless there is a legal or professional requirement to do so. Confidential information gained in the course of internal audit work will not be used to effect personal gain.

Access to relevant personnel and records

In carrying out their duties, internal audit (on production of identification) shall have unrestricted right of access to all records, assets, personnel and premises, belonging to the Council or its key delivery partner organisations.

Internal audit has authority to obtain such information and explanations as it considers necessary to fulfil its responsibilities. Such access shall be granted on demand and not subject to prior notice.

Scope of Internal Audit activities

The Chief Internal Auditor is responsible for the delivery of an annual audit opinion and report that can be used by the Council to inform its governance statement. The annual opinion will conclude on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control.

The Council assume a Key Stakeholder role within the Southern Internal Audit Partnership (SIAP). The SIAP currently provides internal audit services to a wide portfolio of public sector clients (Annex 1) through a variety of partnership and sold service delivery models.

A range of internal audit services are provided (Annex 2) to form the annual opinion for each member / client of the Southern Internal Audit Partnership. The approach is determined by the Chief Internal Auditor and will depend on the level of assurance required, the significance of the objectives under review to the organisations' success, the risks inherent in the achievement of objectives and the level of confidence required that controls are well designed and operating as intended.

In accordance with the annual audit plan, auditors will plan and evaluate their work so as to have a reasonable expectation of detecting fraud and identifying any significant weaknesses in internal controls. Additionally, proactive fraud reviews will be incorporated within the plan to deter and detect fraud, covering known areas of high risk.

Managers are required to report all suspicions of theft, fraud and irregularity to the Chief Internal Auditor. The Chief Internal Auditor manages and controls all investigations and will ensure that investigators are fully trained in carrying out their responsibilities.

Where there is evidence that Council staff are committing fraud, internal audit will liaise with Human Resources and the department concerned. The decision on whether to invoke criminal proceedings will be made by the Chief Internal Auditor in conjunction with the Monitoring Officer.

The monitoring of the Council's Anti-Fraud Strategy will be the responsibility of the Chief Internal Auditor, as part of the monitoring of the annual internal audit plan.

Internal audit also facilitate the Council's participation in the National Fraud Initiative (NFI) in which data from the Council's main systems are matched with data supplied from other Local Authorities and external agencies to detect potential fraudulent activity.

Reporting

Chief Internal Auditor's Annual Report and Opinion

The Chief Internal Auditor shall deliver an annual internal audit opinion and report that can be used by the organisation to inform its governance statement.

The annual internal audit report and opinion will conclude on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control.

The annual report will incorporate as a minimum:

- The opinion;
- A summary of the work that supports the opinion; and
- A statement on conformance with the Public Sector Internal Audit Standards and the results of the quality assurance and improvement programme.

Senior Management

As those responsible for the leadership and direction of the Council it is imperative that the Executive Board are engaged in:

- approving the internal audit charter (minimum annually);
- approving the risk based internal audit plan;
- receiving communications from the Chief Internal Auditor on the internal audit activity's performance relative to its plan and other matters;
- making appropriate enquiries of management and the Chief Internal Auditor to determine whether there are inappropriate scope and resource limitations; and
- receiving the results of internal and external assessments of the quality assurance and improvement programme, including areas of non-conformance.

The Board

Organisational independence is effectively achieved when the Chief Internal Auditor reports functionally to the Board. Such reporting will include:

- approving the internal audit charter;
- approving the risk based internal audit plan;
- approving the internal audit resource plan;
- receiving communications from the Chief Internal Auditor on the internal audit activity's performance relative to its plan and other matters, including the annual report and opinion;
- making appropriate enquiries of management and the Chief Internal Auditor to determine whether there are inappropriate scope or resource limitations;
- agreement of the scope and form of the external assessment as part of the quality management and improvement plan;
- receiving the results of internal and external assessments of the quality assurance and improvement programme, including areas of non-conformance; and
- approval of significant consulting services not already included in the audit plan, prior to acceptance of the engagement.

Review of the internal audit charter

This charter will be reviewed annually (minimum) by the Chief Internal Auditor and presented to *'Senior Management'* and *'the Board'* for approval.

Southern Internal Audit Partnership – Client Portfolio

Strategic Partner:	Hampshire County Council
Key Stakeholder Partners:	West Sussex County Council Havant Borough Council East Hampshire District Council Winchester City Council New Forest District Council Mole Valley District Council Epsom and Ewell Borough Council Reigate and Banstead Borough Council Tandridge District Council Hampshire Fire & Rescue Authority Office of the Hampshire Police & Crime Commissioner / Hampshire Constabulary Office of the Sussex Police & Crime Commissioner / Sussex Police Force Office of the Surrey Police & Crime Commissioner / Surrey Police Force
External clients:	Waverley Borough Council Hampshire Pension Fund West Sussex Pension Fund New Forest National Park Authority
	Further Education Institutions Eastleigh; Highbury; Isle of Wight College; and Portsmouth.

Assurance Services

- **Risk based audit:** in which risks and controls associated with the achievement of defined business objectives are identified and both the design and operation of the controls in place to mitigate key risks are assessed and tested, to ascertain the residual risk to the achievement of managements' objectives. Any audit work intended to provide an audit opinion will be undertaken using this approach.
- **Developing systems audit:** in which:
 - the plans and designs of systems under development are assessed to identify the potential weaknesses in internal control and risk management; and
 - programme / project management controls are assessed to ascertain whether the system is likely to be delivered efficiently, effectively and economically.
- **Compliance audit:** in which a limited review, covering only the operation of controls in place to fulfil statutory, good practice or policy compliance obligations are assessed.
- **Quality assurance review:** in which the approach and competency of other reviewers / assurance providers are assessed in order to form an opinion on the reliance that can be placed on the findings and conclusions arising from their work.
- **Fraud and irregularity investigations:** Internal audit may also provide specialist skills and knowledge to assist in or lead fraud or irregularity investigations, or to ascertain the effectiveness of fraud prevention controls and detection processes. Internal audit's role in this respect is outlined in the Council's Anti Fraud and Anti Corruption Strategy.
- **Advisory / Consultancy services:** in which advice can be provided, either through formal review and reporting or more informally through discussion or briefing, on the framework of internal control, risk management and governance. It should be noted that it would not be appropriate for an auditor to become involved in establishing or implementing controls or to assume any operational responsibilities and that any advisory work undertaken must not prejudice the scope, objectivity and quality of future audit work.

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NON-EXEMPT

HAVANT BOROUGH COUNCIL

Governance, Audit & Finance Board

29th July 2020

ANNUAL AUDIT RESULTS REPORT 2018/19

FOR NOTING

Portfolio: Finance, Cllr Mark Inkster

Head of Service: Lydia Morrison, Director for Corporate Services and S151 Officer

Key Decision: No

1.0 Purpose of Report

1.1 This report is submitted to the Governance, Audit and Finance Board to present the Audit Results Report for the year ending 31 March 2019.

2.0 Recommendation

2.1 Governance, Audit & Finance Board is recommended to note the report.

3 Executive Summary

3.1 The Audit Results Report presents the outcome of the Audit of the Statement of Accounts and the Value for Money conclusion for the financial year ending 31 March 2019.

4 Additional Budgetary Implications

4.1 None.

5 Background and relationship to the Corporate Strategy and Directorate Business Plan/s

5.1 It is a legal requirement that the Council has an external auditor in place. Our external auditor is Ernst & Young who audits the annual accounts.

5.2 In April 2019 the Governance, Audit and Finance Board approved the scope and approach for the audit of the financial statement. The draft audit results report is attached.

6 Options considered and reasons for the recommendation

6.1 N/A

7 Resource Implications

7.1 Financial Implications - none

7.2 Human Resources Implications – none

7.3 Information Governance Implications - none

7.4 Other Resource Implication - none.

8 Legal Implications

8.1 The Annual Audit Report and Statutory Accounts are required to be noted and agreed. If this requirement is not met then the Council will have failed to meet its statutory obligations.

9 Risks

9.1 None.

10 Communication

10.1 The Annual Audit Report and Statutory Accounts will be made publicly available on the Council's website.

11 Appendices: None

12 Background Papers: None

Agreed and signed off by:

Monitoring Officer: 21/7/20

S151 Officer: 21/7/20

Contact Officer: Lydia Morrison
Job Title: Chief Finance Officer
Telephone: 02392 446501
E-Mail: Lydia.Morrison@havant.gov.uk

Havant Borough Council Audit results report

Year ended 31 March 2019

July 2020

Page 45

The EY logo consists of the letters 'EY' in a bold, white, sans-serif font. Above the 'Y' is a yellow triangle pointing to the right. The logo is positioned in the bottom right corner of the page, partially overlapping the background image of an open book and a blurred office setting.

Building a better
working world



15 July 2020

Dear Governance, Audit and Finance Board Members

We are pleased to attach our audit results report for the forthcoming meeting of the Governance, Audit and Finance Board. This report summarises our preliminary audit conclusion in relation to the audit of Havant Borough Council for 2018/19.

We have substantially completed our audit of Havant Borough Council for the year ended 31 March 2019. Subject to concluding the outstanding matters listed in our report, we confirm that we expect to issue an unqualified audit opinion on the financial statements in the form at section 3. We also have no matters to report on your arrangements to secure economy, efficiency and effectiveness in your use of resources.

This report is intended solely for the use of the Governance, Audit and Finance Board, other members of the Authority, and senior management. It should not be used for any other purpose or given to any other party without obtaining our written consent.

We would like to thank your staff for their help during the engagement.

We welcome the opportunity to discuss the contents of this report with you at the next Governance, Audit and Finance Board meeting.

Yours faithfully

Kevin Suter

Associate Partner

For and on behalf of Ernst & Young LLP

Encl

Contents



Public Sector Audit Appointments Ltd (PSAA) have issued a 'Statement of responsibilities of auditors and audited bodies'. It is available from the Chief Executive of each audited body and via the PSAA website (www.psa.co.uk).

This Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

The 'Terms of Appointment (updated April 2018)' issued by PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and statute, and covers matters of practice and procedure which are of a recurring nature.

This Audit Results Report is prepared in the context of the Statement of responsibilities. It is addressed to the Members of the audited body, and is prepared for their sole use. We, as appointed auditor, take no responsibility to any third party.

Our Complaints Procedure – If at any time you would like to discuss with us how our service to you could be improved, or if you are dissatisfied with the service you are receiving, you may take the issue up with your usual partner or director contact. If you prefer an alternative route, please contact Steve Varley, our Managing Partner, 1 More London Place, London SE1 2AF. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. Should you remain dissatisfied with any aspect of our service, you may of course take matters up with our professional institute. We can provide further information on how you may contact our professional institute.



01

Executive Summary



Executive Summary

Update to our risk assessment and the scope of our audit

In our Audit Planning Report presented at the 29 April 2019 Governance, Audit and Finance Board meeting, we provided you with an overview of our audit scope and approach for the audit of the financial statements. We carried out our audit in accordance with this plan, with the exceptions below.

The changes to audit risks and audit approach have increased the level of work we have been required to undertake. We are currently quantifying the impact on the audit fee and will present our final fee to the Chief Finance Officer on completion of the audit.

Changes to, and additional, audit procedures as a result of Covid-19

The audit of the accounts was nearing completion shortly before the Covid-19 pandemic and UK lockdown. As a result of Covid-19, we have not identified any further risks to our audit opinion. However, we identified the following impact on our audit strategy:

- Disclosures on Going Concern – we considered the unpredictability of the current environment that gave rise to a risk that the Council would not appropriately disclose the key factors relating to going concern, underpinned by the need for an updated management assessment with particular reference to Covid-19. Our procedures were adjusted with particular reference to Covid-19.

Events after the balance sheet date – We identified an increased risk that further events after the balance sheet date concerning the current Covid-19 pandemic will need to be disclosed. The amount of detail required in the disclosure needed to reflect the specific circumstances of the Council.

Changes in materiality

Changes in materiality. In our Audit Planning Report, we communicated that our audit procedures would be performed using a materiality of £1.248m. We updated our planning materiality assessment using the draft financial statements and have also reconsidered our risk assessment. Based on our materiality measure of gross revenue expenditure, we have updated our overall materiality assessment to £1.29m. This results in updated performance materiality, at 50% of overall materiality, of £0.645m, and an updated threshold for reporting misstatements of £0.065m.

Property valuations

- Prior to the commencement of the audit management indicated that all items of Property, Plant and Equipment (PPE) subject to revaluation had been revalued as part of the five year rolling valuations programme. During the audit the Council subsequently identified a number of properties that were not revalued as part of the five year rolling programme. External valuers were appointed to carry out the valuation exercise for these properties. As a result the audit needed to be paused to give the Authority time to conduct this exercise. It also became apparent properties valued during 2016/17 and 2017/18 had not been properly reflected in the accounts for those years, requiring a prior period adjustment. The updated property valuations were subsequently submitted for audit and the accounts updated. Refer to section two for the additional procedures we undertook to gain assurance over the valuation of Property, Plant and Equipment.

Additional EY consultation requirements concerning the impact on auditor reports.

- The uncertainty created by Covid-19 increases the importance of giving the right assurance to the Council and its stakeholders. As a result, we have instigated additional consultation processes on the wording of the auditor's report. In light of issues with going concern, this consultation process will involve significant senior level input from the audit team and EY's risk management team.



Executive Summary

Status of the audit

We have substantially completed our audit of Havant Borough Council's financial statements for the year ended 31 March 2019 and have performed the procedures outlined in our Audit Planning Report. Subject to satisfactory completion of the following outstanding matters we expect to issue an unqualified opinion on the Council's financial statements in the form which appears at Section 3. However until work is complete, further amendments may arise:

- Review of the final version of the financial statements
- Completion of subsequent events review
- Receipt of the signed management representation letter
- Completion of procedures required by the National Audit Office (NAO) regarding the Whole of Government Accounts submission

We expect to issue the audit certificate at the same time as the audit opinion.

Page 50

Audit differences

We have identified audit differences relating to the Net Pension Liability, Property, Plant and Equipment, Debtors, Collection Fund, Financial instruments and various disclosure notes which management have corrected. Details can be found in Section 4 Audit Differences.

Areas of audit focus

Our Audit Planning Report identified key areas of focus for our audit of Havant Borough Council's financial statements. This report sets out our observations and conclusions, including our views on areas which might be conservative, and where there is potential risk and exposure. We summarise our consideration of these matters, and any others identified, in the "Areas of Audit Focus" section of this report.

We ask you to review these and any other matters in this report to ensure:

- There are no other considerations or matters that could have an impact on these issues
- You agree with the resolution of the issue
- There are no other significant issues to be considered.

There are no matters, apart from those reported by management or disclosed in this report, which we believe should be brought to the attention of the Governance, Audit and Finance Board.



Executive Summary

Control observations

We identified significant deficiencies with regards to the property valuations process and closedown procedures.

We identified properties that were not revalued as part of the Council's five year rolling capital programme and properties that were revalued in prior years but the valuations not updated in the financial statements which resulted in material misstatements in the accounts submitted for audit.

Furthermore, due to the late submission of the draft accounts for management review, management were not able to adequately review the draft accounts which led to a number of basic errors in the accounts submitted for audit.

Other reporting issues

We have reviewed the information presented in the Annual Governance Statement for consistency with our knowledge of the Council. We have no matters to report as a result of this work.

We have performed the procedures required by the National Audit Office (NAO) on the Whole of Government Accounts submission. We had no issues to report.

We have no other matters to report.

Value for money

We have considered your arrangements to take informed decisions; deploy resources in a sustainable manner; and work with partners and other third parties. In our Audit Planning Report we identified one significant risk over sustainable resource deployment and working with partners and other third parties.

Although we have concluded that adequate arrangements are in place to secure economy efficiency and effectiveness in your use of resources, we have the following key findings to report regarding our review of the arrangements regarding the 5 Councils contract up to 31 March 2019:

- Key Performance Indicators (KPIs) are established for each service. Work also took place to review the KPIs within the contract parameters, for introduction in April 2019. However, the effectiveness of these KPIs for the period reviewed are undermined by the fact that many of the services are tracking below the Target Operating Model ("TOM").
- The processes implemented in updated governance arrangements, including the revised IAA, will take time to embed, but in this regard we have found that the arrangements in place are satisfactory and offer a solid basis upon which to implement the revised agreement and its delivery.
- In our judgement the joint procurement of services is not always financially beneficial for all 5 Councils due to the associated costs and complexities of liaising with five Councils over one contract; in fact, our work has found that it is becoming increasingly likely that the contract will struggle to break-even over its lifetime, and for Havant BC not achieving the original forecast savings. However, the Councils' recognition of this fact, demonstrates that Havant Borough Council, and indeed the other four Councils, are willing to review and refresh arrangements in the pursuit of the achievement of value for money.

Further details can be found in Section 5 Value for Money.



Executive Summary

Independence

We have no matters to highlight on Independence.

Audit fees

For the 2018/19 financial year, PSAA has set the scale fee for each audited body that have opted into its national auditor appointment scheme. The fee reflects the risk-based approach to audit planning set out in the National Audit Office's Code of Audit Practice for the audit of local public bodies. For the Authority our indicative fee was set at the scale fee level and was based on certain assumptions, including:

- Page:52
- The overall level of risk in relation to the audit of the financial statements is not significantly different from that of the prior year;
 - Officers meeting the agreed timetable of deliverables;
 - Our accounts opinion and value for money conclusion being unqualified;
 - Appropriate quality of documentation is provided by the Council;
 - There is an effective control environment; and
 - Prompt responses are provided to our draft reports.

These assumptions have not been met in all instances and the issues encountered, including the impact of Covid19, along with the poor quality of the financial statements submitted for audit, are reflected throughout this report.

We are therefore proposing additional fees as highlighted in section 9.



02 Areas of Audit Focus



Significant risk

Capitalisation of revenue expenditure

What is the risk?

Under ISA 240 there is a presumed risk that revenue may be misstated due to improper revenue recognition. In the public sector, this requirement is modified by Practice Note 10 issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition.

We have identified an opportunity and incentive to capitalise expenditure under the accounting framework, to remove it from the general fund.

Page 54.

What judgements are we focused on?

We are focused on the following:

- For significant additions we examined invoices, capital expenditure authorisations, leases and other data that support these additions and expenditure. We reviewed the sample selected against the definition of capital expenditure in IAS 16; and
- Whether management were inappropriately processing journals that transferred amounts from revenue to capital.

What did we do?

- Documented our understanding of the controls relevant to this significant risk and considered they have been appropriately designed;
- Designed journal procedures to identify and review adjustment manual journals that moved amounts from revenue codes to capital codes; and
- Amended our sample sizes when testing PPE additions to reflect the existence of this risk. Agreed samples to source documentation to ensure the classification was reasonable.

What are our conclusions?

We have not identified any issues with the classification of capital expenditure.

We have not identified any instances of inappropriate judgements being applied.

Overall our audit work did not identify any material issues or unusual transactions to indicate any misreporting of the Authority's financial position



Areas of Audit Focus

Significant risk

Misstatements due to fraud or error

What is the risk?

As identified in ISA (UK) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.

We identify and respond to this fraud risk on every audit engagement. The manipulation of capitalising expenditure could occur through management override of controls.

What judgements are we focused on?

We focused on the following:

- Understanding the risks of fraud and the controls put in place to address those risks by management and how the Governance, Audit and Finance Board oversees management's processes over fraud.
- Considering the effectiveness of management's controls designed to address the risk of fraud.
- Determining an appropriate strategy to address those identified risks of fraud.
- Performing mandatory procedures in respect of journal entries, estimates and significant unusual transactions.

What did we do?

- Wrote to the s151 officer, Chair of the Governance, Audit and Finance Board and the Head of Internal Audit in this regard and reviewed their responses;
- Documented our understanding of the controls relevant to this significant risk and considered they have been appropriately designed;
- Tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in preparing the financial statements;
- Reviewed accounting estimates for evidence of management bias; and
- Evaluated the business rationale for any significant unusual transactions.

What are our conclusions?

We have not identified any material weaknesses in controls or evidence of material management override.

We have not identified any instances of inappropriate judgements being applied.

We did not identify any transactions during our audit which appeared unusual or outside the Council's normal course of business



Areas of Audit Focus

Other financial statement risk

Valuation of land and buildings

What is the risk?

The value of Property, Plant and Equipment (PPE) represents a significant balance in the Council's accounts and are subject to valuation changes, impairment reviews and depreciation charges. Management is required to make material judgements and apply estimation techniques to calculate the year-end balances recorded in the balance sheet.

Pages 56

What judgements are we focused on?

We focused on the following:

- The adequacy of the scope of the work performed by the valuer including their professional capabilities; and
- The reasonableness of the underlying assumptions used by the Council's expert valuer.

What did we do?

- Considered the work performed by the Council's valuers, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work;
- Reviewed the relationship of the valuer to the Council;
- Challenged the assumptions used by the Council's valuers by reference to external evidence;
- Considered the annual cycle of valuations to ensure that assets have been valued within a 5 year rolling programme as required by the Code for PPE;
- Reviewed assets not subject to valuation in 2018/19 to confirm that the remaining asset base was not materially misstated;
- Sample tested key asset information used by the valuers in performing their valuation;
- We also considered if there are any specific changes to assets that have occurred and that these have been communicated to the valuer;
- Considered changes to useful economic lives as a result of the most recent valuation; and
- Tested accounting entries have been correctly processed in the financial statements.



Other financial statement risk

What are our conclusions?

- We reviewed the scope and relationship of the valuer to the Council and identified no issues;
- We have reviewed the instructions and data provided to the valuer by the Council. We identified no issues with what the valuer had been requested to do, once the council had properly identified which assets required valuing;
- Council undertook no valuations during 2018/19 on the assumption that all items of PPE were revalued within the rolling five year capital programme. We challenged this assumption on two bases:
 1. The accuracy of the asset records and disclosures
 2. The processes management had in place to comply with the Code requirements that all assets, whenever valued in the cycle, must be materially correct as at the balance sheet date. Management had no process to assess potential material movements in valuation between the last valuation date and 31 March 2019 as required by the Code and we needed to perform our own assessment.

Page 57

Management were unable to provide evidence to support the valuation dates for the property portfolio as disclosed in the accounts. We requested they review the dates of when each property was last valued from the valuation reports over the past 5 years. This procedure identified 14 properties that were not revalued in the last five years. The Council subsequently engaged external valuers to value these properties and the valuations were updated which resulted in material corrections to the financial statements. Upward revaluations totalled £4.9m and downward revaluations £2.4m;

As part of this review, management identified properties that were revalued in 2016/17 and 2017/18 but the values were not updated in the accounts for those years. This resulted in material corrections to prior year figures. We therefore needed to audit three years of valuations to gain sufficient assurances over the PPE balances. During our review of these prior year revaluations we identified further errors above our threshold, mainly due to the use of the incorrect Build Cost Information Service (BCIS) rates;

- As highlighted in the executive summary and in section 7 of this report, the lack of proper asset records is a significant control deficiency. This was exacerbated by the fact that the internal valuers who performed these prior year valuations were no longer employed by the Council, working papers underpinning the valuations were not readily available, and therefore we experienced significant delays in obtaining the required evidence to conclude on the valuations;
- We reviewed the accounting entries at period end and those journals made in processing valuation adjustments and identified further errors. The adjustments impacted throughout the accounts, i.e. all primary statements and the notes to the accounts and a significant amount of time was needed to ensure that all the adjustments were made appropriately, including depreciation entries through the Comprehensive Income and Expenditure Statement (CIES), Expenditure and Funding Analysis (EFA), Cash Flow Statement and related notes to the accounts.
- Once we had agreed the final adjustments with management in relation to the prior year revaluations, upon review of these adjustments in the revised set of accounts we identified revaluation adjustments that were incorrectly processed in the current year instead of the prior year. Management needed to go back and process the adjustments in the correct financial year.
- With regard to material movements in valuation between the last valuation date and 31 March 2019 as required by the Code, we did not identify any material movements in valuation after identifying the correct valuation records, and after all amendment journals had been properly processed.



Areas of Audit Focus

Other financial statement risk

Pension Liability valuation

What is the risk?

The Local Authority Accounting Code of Practice and IAS19 require the Council to make extensive disclosures within its financial statements regarding its membership of the Local Government Pension Scheme administered by Hampshire County Council.

The Council's pension fund deficit contains material estimations and the Code requires that this liability be disclosed on the Council's balance sheet. At 31 March 2019 this totalled £45.77m.

The information disclosed is based on the IAS 19 report issued to the Council by the actuary to the County Council.

Accounting for this scheme involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf. ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.

What judgements are we focused on?

We focused on the following:

- The reasonableness of the underlying assumptions used by the Authority's expert - AON Hewitt;
- Ensuring the information supplied to the actuary in relation to Havant Borough Council was complete and accurate; and
- Ensuring the accounting entries and disclosures made in the financial statements were consistent with the report from AON Hewitt.

What did we do?

- Liaised with the auditors of Hampshire Pension Fund, to obtain assurances over the information supplied to the actuary in relation to Havant Borough Council;
- Assessed the work of the Pension Fund actuary (AON Hewitt) including the assumptions they have used by relying on the work of PWC - Consulting Actuaries commissioned by the National Audit Office for all Local Government sector auditors, and considered relevant reviews by the EY actuarial team;
- Reviewed the actuaries estimates to outturn information where available; and
- Reviewed and tested the accounting entries and disclosures made within the Council's financial statements in relation to IAS19.

What are our conclusions?

We obtained assurances from the auditors of Hampshire Pension Fund that the information supplied to the actuary in relation to Havant Borough Council was materially accurate and complete.

We have assessed and are satisfied with the competency and objectivity of the Council's actuaries: AON Hewitt.

We have reviewed the work of the actuaries. We challenged the actuarial valuation and found no indication of management bias in this estimate.

Our review of accounting entries at period end and those journals made in processing valuation adjustments did not reveal any instances of management intention to misreport the financial position. However, we did identify a £260k difference in Employer contributions when transferring the amounts from the Actuary's report to the draft accounts. We also identified an understatement of £287k relating to total benefits paid when comparing information submitted to the Actuary to that disclosed in the general ledger.

We identified an adjusting event after reporting date relating to the pension fund liability, referred to as the McCloud judgement, the effect of which increased past service cost and gross liability. A revised IAS 19 report was prepared accordingly by the Actuary and the amendments were processed in the accounts. However, the new IAS 19 report did not take into account the updated fair value of plan assets and other actuarial adjustments in relation to guaranteed minimum pension (GMP) indexation.



Areas of Audit Focus

Other financial statement risk

Going concern

What is the risk?

The Council prepares its accounts on the assumption that it will continue as a going concern. The current and future uncertainty over government funding and loss of income as a result of Covid-19 increases the need for the Council to revisit its financial planning and undertake a detailed assessment to support its going concern assertion. From an audit perspective, the auditor's report going concern concept is a 12-month outlook from the audit opinion date, rather than the balance sheet date. So, for the 2018/19 statements, for example, we will need to see evidence of an assessment up to and including July 2021. This will need information relevant to the 2021/22 financial year.

What judgements are we focused on?

We focused on management's assessment of the going concern assumption in preparing the Council's financial statements. We also reviewed management's cash flow forecasts to determine whether expected forecasting appeared reasonable and whether it was sufficient to enable the Council to continue its operations.

We also discussed with management further disclosures required in the 2018/19 statements on going concern and in particular, material uncertainties

What did we do?

- We reviewed the Governance, Audit and Finance Board's assessment of the appropriateness of the going concern assumption;
- We reviewed and challenged the level and form of disclosure of this assessment made in the financial statements, given the Covid-19 pandemic; and
- Reviewed the Council's cash flow forecasts and financial plans for the foreseeable future to ensure that these are sufficiently robust and supported by adequate evidence, and that the cash flow forecasts demonstrate that the Council has sufficient liquidity to continue its operations.

What are our conclusions?

- Our review of management's continued use of the going concern assumption is appropriate.
- We reviewed the proposed going concern disclosures for inclusion in the financial statements and the Council's forecast cash flows.
- In our view no significant uncertainty exists that may cast doubt on the Council's ability to continue as a going concern, which would be required to be disclosed. The key issues we reflected on for our assessment relate to a combination of the Council's liquidity and its level of General Fund reserves. Management's assessment demonstrates that reserves should be maintained above the minimum level set by the s151 officer for the foreseeable future, and the Council will have access to sufficient working capital.
- We also considered recent announcements by central government to fund Council's for 75% of income losses (over and above the first 5% reduction) during the pandemic. Further guidance has not been provided to enable this to be modelled, but it is likely to improve the Council's cash flow projections and liquidity as presented for audit.
- The Council has updated its disclosures in the accounts to reference these factors and we will draw attention to this through an emphasis of matter paragraph in our audit report. Our opinion is not modified in respect of this matter.



Areas of Audit Focus

Other areas of audit focus

NDR Appeals Valuation

What is the risk?

The Non Domestic Rates Appeals Provision requires a number of assumptions and judgements.

In addition, in the prior year we have identified an error above our audit differences threshold.

What judgements are we focused on?

We focused on the following:

- The reasonableness of the assumptions to appeals made to the 2005 and 2010 ratings lists;
- The reasonableness of the assumptions made to any appeals lodged against the 2017 ratings list, and the Council's assumptions for appeals as yet unlodged.

What did we do?

- Reviewed the calculation of the provision for accuracy;
- Ensured calculation of the provision included consideration of unlodged appeals; and
- Considered the relevance and reasonableness of assumptions, methods and models used by the management specialist.

What are our conclusions?

We have reviewed the calculation of the provision and confirmed that the calculation was accurate.

We have confirmed that the provision considered unlodged appeals.

We reviewed the assumptions, methods and models used by management's specialist. We identified no issues.



Areas of Audit Focus

Other financial statement risk

New accounting standards – IFRS 9

What is the risk?

This new accounting standard is applicable for local authority accounts from the 2018/19 financial year and changed how financial assets are classified and measured, how the impairment of financial assets are calculated, and the disclosure requirements for financial assets.

What did we do?

Page 61

Assessed the authority's implementation arrangements and impact assessment paper setting out the application of the new standard, transitional adjustments and planned accounting for 2018/19;

Considered the classification and valuation of financial instrument assets;

- Reviewed the new expected credit loss model impairment calculations for assets; and
- Checked additional disclosure requirements

What are our conclusions?

- We have reviewed the authority's implementation arrangements and impact assessment paper setting out the application of the new standard, transitional adjustments and planned accounting for 2018/19. We identified the issues below which were not addressed by the authority's implementation arrangements;
 - The draft accounts presented for audit displayed an inadequate knowledge of the new accounting standard, and the steps needed to present the information consistent to it's requirements;
 - Financial instrument were not appropriately classified under IFRS 9. The accounts submitted for audit still referred to the old classifications under IAS 39 and the transition from IAS 39 to IFRS 9 was not presented appropriately;
 - Additional disclosure requirements were not in line with the requirements of IFRS 9 as the disclosures in the draft accounts submitted for audit were prepared in accordance with IAS 39;
 - These issues were not resolved until additional resource was brought in by the Council, after we paused the audit.
- We have reviewed the new expected credit loss model impairment calculations for assets and identified no issues.



Other financial statement risk

New accounting standards – IFRS 15

What is the risk?

This new accounting standard is applicable for local authority accounts from the 2018/19 financial year. The key requirements of the standard cover the identification of performance obligations under customer contracts and the linking of income to the meeting of those performance obligations.

Where the standard is relevant, the recognition of revenue will change and new disclosure requirements introduced

What did we do?

Assessed the authority's implementation arrangements and impact assessment paper setting out the application of the new standard, transitional adjustments and planned accounting for 2018/19.

Considered application to the authority's revenue streams, and where the standard was relevant test to ensure revenue is recognised when (or as) it satisfies a performance obligation; and

- Checked additional disclosure requirements.

What are our conclusions?

- We have reviewed the authority's implementation arrangements and impact assessment paper setting out the application of the new standard, transitional adjustments and planned accounting for 2018/19. We identified no issues;
- For relevant revenue streams we confirmed that revenue was recognised in line with the requirements of IFRS 15; and
- Additional disclosure requirements were in line with the requirements of IFRS 15.



03 Audit Report



Audit Report

Draft audit report

Our proposed audit report

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF HAVANT BOROUGH COUNCIL

Opinion

We have audited the financial statements of Havant Borough Council for the year ended 31 March 2019 under the Local Audit and Accountability Act 2014. The financial statements comprise the:

- Authority and Group Movement in Reserves Statement,
- Authority and Group Comprehensive Income and Expenditure Statement,
- Authority and Group Balance Sheet,
- Authority and Group Cash Flow Statement,
- The related notes 1 to 43 and the Expenditure and Funding analysis, and
- Collection Fund Statement and the related notes 1 to 3.

The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.

In our opinion the financial statements:

- give a true and fair view of the financial position of Havant Borough Council and Group as at 31 March 2019 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19

Basis for opinion

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

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

Emphasis of matter – Effects of COVID-19

We draw attention to Note 42 of the financial statements, which describes the economic consequences the Council is facing as a result of COVID-19 which is impacting demand for its services. Our opinion is not modified in respect of this matter. Final references to be confirmed where the Council locates the PBSE and Going Concern disclosure.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where: the Chief Finance Officer's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or the Chief Finance Officer has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Authority's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.



Audit Report

Our proposed audit report

Other information

The other information comprises the information included in the Statement of Accounts 2018/19, other than the financial statements and our auditor's report thereon. The Chief Finance Officer is responsible for the other information.

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

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

We have nothing to report in this regard.

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

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

In our opinion, based on the work undertaken in the course of the audit, having regard to the guidance issued by the Comptroller and Auditor General (C&AG) in November 2017, we are satisfied that, in all significant respects, Havant Borough Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.

Matters on which we report by exception

We report to you if:

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

We have nothing to report in these respects.

Responsibility of the Chief Finance Officer

As explained more fully in the Statement of Responsibilities for the Statement of Accounts set out on page 16, the Chief Finance Officer is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19, and for being satisfied that they give a true and fair view.

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



Audit Report

Our proposed audit report

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

Auditor’s responsibilities for the audit of the financial statements

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

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

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

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General (C&AG) in November 2017, as to whether the Council had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.

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

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

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

Certificate

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

Use of our report

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



04 Audit Differences





Audit Differences

In the normal course of any audit, we identify misstatements between amounts we believe should be recorded in the financial statements and the disclosures and amounts actually recorded. These differences are classified as “known” or “judgemental”. Known differences represent items that can be accurately quantified and relate to a definite set of facts or circumstances. Judgemental differences generally involve estimation and relate to facts or circumstances that are uncertain or open to interpretation.

Summary of adjusted differences

We highlight the following misstatements greater than £0.064m identified during the course of our audit which management have corrected:

- £4.9m upward revaluations of Property, Plant & Equipment (PPE) as a result of PPE valuations not performed in line with the five-year rolling programme as required by the Code.
- £2.3m downward revaluations of PPE as a result of PPE valuations not performed in line with the five-year rolling programme as required by the Code.
- £5.715m prior year adjustment in relation to an understatement of PPE due to asset revaluations performed in prior years which were not processed in the accounts. There was also £656k impact on net costs of services in the CIES and the Movement in Reserves Statement. The impact of these adjustments further affected the Cash Flow Statement, EFA and related notes to the accounts
- £96k impairment allocated to the incorrect portfolio line in the CIES, the impairment was allocated to Community Engagement instead of Executive and 5Cs
- £695k misclassification between Long Term Debtors and Short Term Debtors in relation to Community Infrastructure Levy. Amounts falling due within 2019/20 were not reclassified as short term.
- £260k overstatement of the net pension liability due to the figures for Employer contributions being incorrectly transferred from the Actuary report to the accounts.
- £218k overstatement of the Capital Adjustment Account reserve due to the impact revaluation losses not considered.
- Financial instruments were disclosed under the old accounting standard IAS 39. The whole disclosure note needed to be revised and disclosed in terms of IFRS 9 which is the new standard for financial instruments. The accounting policies also needed to be updated accordingly.
- £1.73m overstatement of investment properties due to input errors and double counting.
- Numerous misstatements, both material and immaterial, identified within the notes to the accounts as follows:
 - PPE Prior year adjustment (PYA) impact on the EFA - £164k Head of Community Engagement, £272k Head of Estates and £236k Head of Estates. Similar adjustments were made to Note 8 – Notes to the EFA
 - Pension liability adjustment impact on the EFA in relation to the McCloud judgement - £96k Executive and 5Cs, £144k Head of Development, £256k Head of Environmental Services
 - Group net expenditure line in CIES – Total Operations Directorate £7.665m overstatement due to a typing error
 - Note 8 Income and Expenditure analysis - £656k adjustment to Depreciation, Amortisation and Impairment comparator as a result of the PPE PYA impact
 - Note 8 Income and Expenditure analysis - £779k adjustment to Employee benefits, £2.716m adjustment to Direct Expenditure, £4.726m adjustment to Depreciation, Amortisation and Impairment, £1.27m adjustment to Interest payments, £1.051m adjustment to Fees, Charges and Other Services, £4.826m adjustment to Interest and Investment Income and £2.499m adjustment to Government Grants and Contributions. The net impact of these adjustment was £3.217m which consists of £1.73m overstatement of the fair value of investment properties, £1.27m understatement in relation to the McCloud pension adjustment and £218k overstatement in relation to PPE impairments



Audit Differences

Summary of adjusted differences

- Note 9 Adjustments to revenue resources - £1.27m adjustment to pension costs in relation to the McCloud pension adjustment, £1.948m adjustment to Provision of services in relation to capital expenditure due to fair value movements of investment properties and PPE impairments
- Note 12 Financing and Investment Income and Expenditure - £1.73m adjustment in relation to the overstatement in the fair value of investment properties
- Note 14 PPE – Land and Buildings £814k and Community Assets £683k adjustment to opening balances in relation to the PPE PYA
- Note 14 PPE – Revaluation increases £3.388m and Depreciation written out to the revaluation reserve £365k adjustment in relation to the PPE PYA
- Note 14 PPE – Revaluation decreases recognised in the CIES £222k adjustment in relation to the PPE PYA
- Note 14 PPE – Prior year accumulated depreciation Land and Buildings £1.64m adjustment to write back depreciation in relation to the PPE PYA
- Note 14 PPE – Valuations rolling programme £7.96m net adjustment to reflect the value of assets revalued during the five year rolling programme split across each of the previous five years
- Note 15 Investment Properties - £1.73m adjustment in relation to the overstatement in fair values of investment property. A similar adjustment was made to Net gains from fair value adjustments
- Note 24 Unusable Reserves - £7.544m adjustment to the Revaluation Reserve consisting of £3.794m in relation to the PPE PYA therefore affecting the opening balance, £3.637m in relation to the movement in revaluations and £113k in relation to the movement in depreciation
- Note 24 Unusable Reserves - £1.27m adjustment to the Pensions Reserve in relation to the McCloud adjustment
- Note 24 Unusable Reserves - £3.75m net adjustment to the revaluation reserve consisting of £3.637m movements in revaluations and £113k movement in depreciation
- Note 24 Unusable Reserves - £656k adjustment to the Capital Adjustment Account opening balance in relation to the impairment of PPE as part of the PPE PYA
- Note 24 Unusable Reserves - £1.73m adjustment to Movements in the market value of Investment Properties within the Capital Adjustment Account in relation to movements in the fair value of investment properties
- Note 24 Unusable Reserves - £1.27m adjustment to Reversal of items relating to retirement benefits within the Pensions Reserve in relation to the understatement of the pension liability
- Note 25 Net cash flow from operating activities - £98k adjustment to Impairment and Downward Valuations in order to be internally consistent with note 14 PPE
- Note 25 Net cash flow from operating activities - £1.577m adjustment to Movement in pension liability in order to be internally consistent with the movement in the pension liability on the balance sheet
- Note 25 Net cash flow from operating activities - £1.73m adjustment to Changes in fair value of investment properties in relation to the overstatement of Investment Properties
- Note 25 Net cash flow from operating activities - £1.088m adjustment to Any other items for which the cash effects are investment or financing cash flows, to be internally consistent with the Capital grants and contributions in note 13. A similar adjustment was made to note 26 Other receipts for investing activities
- Note 31 Grant Income - £342k overstatement in relation to the Housing Benefit Admin Grant, £78k reversal of the Trans Support Grants, £221k understatement of the Homelessness Support Grant and £166k understatement of the CT Flood Grant



Audit Differences

Summary of adjusted differences

- Note 38 Defined Benefit Pension Schemes – Fair value of plan assets understated by £260k and present value of defined benefit obligation understated by £1.27m based on the updated IAS 19 report from the Actuaries. Similar adjustments were made then made to Past Service Costs, Pension Expense recognised in Income and Expenditure, Total amount recognised, Closing Defined Benefit Obligation, Contributions by Employer, Closing Present Value of Assets as well as the all figures in the sensitivity analysis within the Defined Pension Schemes note 38
 - Collection Fund Note 1 – the number of dwellings per the Council Tax base was overstated by 13,321 dwellings
 - Note 42 Events after the Balance Sheet Date – Updated for the impact of Covid-19 and the going concern assumption.
- There were also numerous casting and cross casting errors and internal inconsistencies in the draft set of accounts submitted for audit. Furthermore, when these errors were corrected their was poor version control. Incorrect versions of the draft accounts were used which led to previously agreed corrections no longer appearing in the revised set of accounts, which occurred on multiple occasions. This required us to recheck the revised set of accounts in its entirety on each occasion and this had a further impact on our final audit fee.



Audit Differences

Summary of unadjusted differences

In addition we highlight the following misstatements to the financial statements and/or disclosures which were not corrected by management. We request that these uncorrected misstatements be corrected or a rationale as to why they are not corrected be considered and approved by the Governance, Audit and Finance Board and provided within the Letter of Representation:

	Assets Current	Assets Non-current	Liabilities Current	Liabilities Non-current	Reserves	CIES
Uncorrected misstatements	Debit/ (Credit)	Debit/ (Credit)	Debit/ (Credit)	Debit/ (Credit)		Debit/ (Credit) Current period
Known differences:						
▶ The fair value for pension assets was estimated at the time that the estimated pension fund liability was calculated. The actual outturn at year-end differed to the estimated figure				190k	(190k)	
▶ Omission on GMP impact on net pension liability				(309k)		309k
▶ Difference between net pension liability recognised on the balance sheet and the net pension liability per note 38 Defined benefit pension schemes				70k	(70k)	
▶ Capital additions recognised in the incorrect period. Capital expenditure incurred in 2017/18 was recognised in 2018/19		(192k)			192k	
▶ Collection Fund Council Tax Debtor understated due to historic imbalance from prior years	223k				(223k)	
▶ Incorrect recognition of grant income			(225k)			225k
Total	223k	(192k)	(225k)	(49k)	(291k)	534k



Audit Differences

Uncorrected disclosure misstatements

Note 38 of the financial statements: Total benefits paid in relation to the net pension liability was understated by £288k. This impacted both the present value of the defined benefit obligation and the fair value on pension assets. However, the net effect was nil



05

Value for Money Risks



Background

We are required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources. This is known as our value for money conclusion.

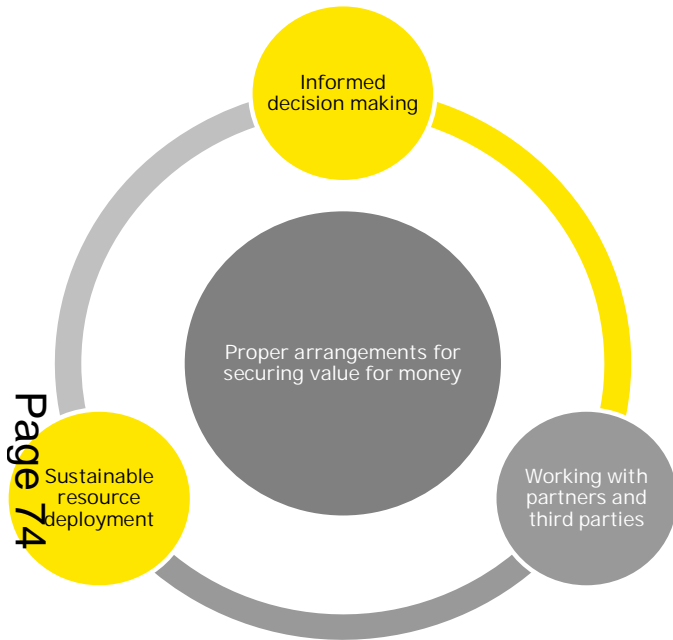
For 2018/19 this is based on the overall evaluation criterion:

"In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people"

Proper arrangements are defined by statutory guidance issued by the National Audit Office. They comprise your arrangements to:

- Take informed decisions;
- Deploy resources in a sustainable manner; and
- Work with partners and other third parties.

In considering your proper arrangements, we will draw on the requirements of the CIPFA/SOLACE framework for local government to ensure that our assessment is made against a framework that you are already required to have in place and to report on through documents such as your annual governance statement.



Overall conclusion

We identified one significant risk around these criteria. We are satisfied that the Authority has adequate arrangements in place in regard to financial resilience over the medium term and working with partners and other third parties.

We therefore expect having no matters for our audit report regarding your arrangements to secure economy, efficiency and effectiveness in your use of resources.



Value for Money Risks

We are only required to determine whether there are any risks that we consider significant within the Code of Audit Practice, where risk is defined as:

“A matter is significant if, in the auditor’s professional view, it is reasonable to conclude that the matter would be of interest to the audited body or the wider public”

Our risk assessment supports the planning of enough work to deliver a safe conclusion on your arrangements to secure value for money, and enables us to determine the nature and extent of any further work needed. If we do not identify a significant risk we do not need to carry out further work.

The table below presents the findings of our work in response to the risks areas in our Audit Planning Report.

What was the significant value for money risk?

What arrangements did the risk affect?

In 2016 the Council entered into agreements for Corporate Services Contracts with Capita (Lot 1) and Vinci (Lot 2), as part of the Five Councils Partnership arrangements. The services split into two lots; data-based services (Lot 1) and property based services (Lot 2).

Deploy resources in a sustainable manner / Work with partners and other third parties

These contracts started in 2017/18 at Havant Borough Council and were designed to generate significant savings for the Five Councils across their lifetime of nine years. The Councils have since renegotiated Lot 1 and terminated Lot 2 due to issues with the way the contracts were constructed and the implications for the practical implementation thereof and have also revised savings targets.

A new Inter-Authority Agreement is being put in place which outlines the revised governance and cost sharing arrangements between the Five Councils. In addition, there have been a number of issues noted during implementation of the services across the Five Councils. This has led to remedial action being taken including:

- appointing a remedial adviser to review the service provision in some areas, for example, HR and IT, and recommend actions to remedy the causes of failure;
- potentially bringing HR services back in house if remedial actions does not remedy the failures; and
- implementing additional management checks, for example, on payroll runs.

Given the significant changes to the IAA there is a risk that both the services and financial performance of the Councils could be negatively impacted if renegotiated changes are difficult to implement or do not deliver the intended benefits.



Value for Money Risks

Audit findings

Havant Borough Council, along with its partners, have subscribed to the revised IAA, which was signed in January 2019. The revised IAA aims to support wider collaboration between the Councils according to the agreed Mutual Aims, including delivering improved value for money. The Vinci element of the original contract is terminated, and the IAA facilitates changes to the contract governance and cost sharing mechanisms. The financial mechanism now better promotes each Council paying for its own services, increasing transparency, and removing cross subsidy. The IAA also clarifies how changes can be made to the contract, clarifying the mechanisms and responsibilities for incurred costs if and where changes are sought by any of the members. There are provisions for exclusions for conflicts of interest in decision making, and a dispute resolution mechanism.

All five Councils are fully represented in the revised document, allowing for a balanced approach to decision making. A revised governance mechanism has been created to manage the arrangements arising out of the IAA. Governance bodies are now formed of a Joint Committee, a Strategic Board, an Operational Management Board, and a Service Improvement Group. Each has a defined role and membership, and the relations between each including decision making delegations, is established.

Looking at the operational arrangements, Key Performance Indicators (KPIs) are established for each service. Work also took place to review the KPIs within the contract parameters, for introduction in April 2019. However, the effectiveness of these KPIs for the period reviewed are undermined by the fact that many of the services are tracking below the Target Operating Model ("TOM"). As acknowledged by the Councils, and previously reported, it is significantly doubtful whether the contract has delivered the aspirational savings. We also remain unclear what detailed financial monitoring is taking place to measure actual savings against the aspirational targets alluded to in the original contracts. Operationally, it is not clear the degree to which the revised governance arrangements are having an impact on the performance of the contract in the year, as these have not yet had sufficient time by 31 March to clearly demonstrate their impact. The effectiveness of Financial penalties is also unclear.

The processes will take time to embed, but in this regard we have found that the arrangements in place are satisfactory and offer a solid basis upon which to implement the revised agreement and its delivery.

In our judgement the joint procurement of services is not always financially beneficial for the Councils due to the associated costs and complexities of liaising with five Councils over one contract; in fact, our work has found that it is becoming increasingly likely that the contract will struggle to break-even over its lifetime, and could even incur some degree of cost. At Havant BC it is clear that the original savings targets will not be achieved. However, the Councils' recognition of this demonstrates that Havant Borough Council, and indeed the other four Councils, are willing to review and refresh arrangements through the IAA in the pursuit of the achievement of value for money.



Value for Money Risks

Audit findings (continued)

Therefore, on balance we have concluded that the Councils are taking the appropriate actions to improve the contract, and therefore have arrangements in place to do so during 2018/19, starting from the baseline at the beginning of the year.

Looking forward we raise two points for which we would expect to see ongoing focus.

Firstly, that any decisions made are not rushed to an inappropriate timescale, are made transparently and as openly as a commercial decision can be made under each Councils constitution, are in accordance with the terms of the contract, and are based on reliable performance or financial information.

Secondly, with strengthened arrangements in place under the revised IAA, it is important that the Councils continue to monitor and manage performance over a longer period to determine whether value for money is being achieved through the partnership, and be ready to respond with remedial action if this is not the case.



06 Other reporting issues

Other reporting issues

Consistency of other information published with the financial statements, including the Annual Governance Statement

We must give an opinion on the consistency of the financial and non-financial information in the Statement of Accounts 2018/19 with the audited financial statements.

We must also review the Annual Governance Statement for completeness of disclosures, consistency with other information from our work, and whether it complies with relevant guidance.

Financial information in the Statement of Accounts 2018/19 and published with the financial statements was consistent with the audited financial statements.

We have reviewed the Annual Governance Statement and can confirm it is consistent with other information from our audit of the financial statements and we have no other matters to report.

Page 79

Whole of Government Accounts

Alongside our work on the financial statements, we also review and report to the National Audit Office on your Whole of Government Accounts return. The extent of our review, and the nature of our report, is specified by the National Audit Office.

We had no issues to raise. The Council is below the £500m threshold for detailed audit procedures.

Other reporting issues

Other matters

As required by ISA (UK&I) 260 and other ISAs specifying communication requirements, we must tell you significant findings from the audit and other matters if they are significant to your oversight of the Council's financial reporting process. They include the following:

Significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures

- The financial statements presented for audit contained a significant number of basic errors and was significantly below the standard we expected. They contained a large number of casting, cross-referencing and internal consistency errors which created difficulties in identifying the correct numbers that should be subject to audit. These were also the accounts that were published on the Council's website on 31 May for the public to review. Refer to section 4 where we have highlighted all the misstatements identified, both material and immaterial.
- The accounts timetable did not allow sufficient time for senior officer review prior to publication, which we expect would have identified a number of the issues present in the financial statements.

In section two above we reported the errors identified in implementing IFRS 9, the draft financial statements were not updated for the impact of IFRS 9 – Financial Instruments and the accounts still made reference to the old classifications of financial assets and financial liabilities under IAS 39. The Council lacked appropriate preparation, including training, for the new reporting standard.

Any significant difficulties encountered during the audit

- We encountered significant difficulties in auditing the Property, Plant & Equipment (PPE) balances to the property valuations process and closedown procedures. We identified properties that were not revalued as part of the Council's five year rolling capital programme and properties that were revalued in prior years but the valuations not updated in the financial statements which resulted in material misstatements in the accounts submitted for audit. We experienced significant delays in obtaining working papers to support the PPE note which sets out the latest valuation dates for all assets and we were unable to select our samples for testing despite numerous follow ups with the internal valuers and this was exacerbated by resignations within the Property Services division and new staff coming in were not familiar with the previous processes followed.
- We also had numerous requests for documentary evidence that assets not revalued in-year had not changed materially in value since the last revaluation date and this information was not available. Through these enquiries management identified assets that should have been revalued but were not revalued as part of the five-year rolling programme. Consequently, we paused the audit in July.
- We came back in early August but management had not made significant progress as the extent of the valuations not performed was much worse than management expected. External valuers were engaged to perform valuations on these assets. We subsequently received the revised valuations from the external valuers in mid-September but we were still awaiting the valuation reports for those assets revalued in 2016/17 and 2017/18 which were not processed in the accounts and this was received piecemeal between the end of September and beginning October.
- Furthermore, the errors in the financial instruments note mentioned above had still not been rectified. This was subsequently updated at the end of August but there were still errors within the note that needed further corrections, eventually made and received in mid-September.
- Given the further delays we decided again to pause the audit at the start of October and give management two weeks to obtain all the outstanding documentation after which we would then recommence the audit.

Other reporting issues

Other matters (continued)

- We resumed the audit at the end of October for two weeks and managed to work through the evidence provided for outstanding queries relating to Earmarked Reserves, Capital Grants, Movement in Reserves Statement, Debtors, Related Parties, Payroll, Collection Fund and Income. However, supporting evidence for PPE valuations were still outstanding and we then paused the audit again until February 2020 due to our commitments on other clients and staff annual leave.
 - We resumed the audit again in February and held meetings with management to discuss the outstanding queries and the evidence required to resolve them. At this point we were dealing with the third different Deputy S151 Officer. We were able to resolve some of the queries based on the evidence provided by management but there were various valuations which could not be supported by comparable evidence. These all related to prior year valuations and management therefore processed further adjustments in the accounts as highlighted in section 4. We were then required to audit these adjustments to ensure that they were appropriately processed in the revised set of accounts.
 - During our review of the above adjustments in the revised set of accounts we identified revaluation adjustments that were processed in the current year instead of the prior year and management needed to go back and process these adjustments in the correct financial year. During the review of the final version of the accounts we again identified casting and internal consistency errors which management corrected. However, there were multiple instances where management made the corrections to the incorrect version of the accounts and each time we needed to go back and review the whole set of accounts each time to ensure no other inappropriate changes were made.
- Generally we had issues with the quality of supporting working papers where evidence provided had no clear rationale to support the balances and there were often delays in receiving the information requested.
- Any significant matters arising from the audit that were discussed with management - *None*;
 - Written representations we have requested - *None*;
 - Expected modifications to the audit report - *None*;
 - Any other matters significant to overseeing the financial reporting process - *None*;
 - Related parties - *Declarations of interest were not completed for all senior officers and councillors. These were only completed subsequent to our enquiries*;
 - External confirmations - *None*;
 - Consideration of laws and regulations - *None*; and
 - Group audits - *None*.

Other powers and duties

We have a duty under the Local Audit and Accountability Act 2014 to consider whether to report on any matter that comes to our attention in the course of the audit, either for the Authority to consider it or to bring it to the attention of the public (i.e. "a report in the public interest"). We did not identify any issues which required us to issue a report in the public interest.

We also have a duty to make written recommendations to the Authority, copied to the Secretary of State, and take action in accordance with our responsibilities under the Local Audit and Accountability Act 2014. We did not identify any issues.

Other reporting issues

Other matters

Assessment of new Accounting Standards

- IFRS 16 Leases: Implementation date for IFRS 16 is 1 April 2021. In your current view the impact of the introduction of IFRS 16 and its amendments is not material as the Council is not party to significant operating leases as lessee. In our view, given the immaterial balance of operating leases as lessee in the accounts, it is unlikely that the future implementation of IFRS 16 will have a material impact on the single entity financial statements of the Council. Lessor arrangements remain unchanged under IFRS 16.
- However, given the findings from the implementation of the new accounting standards this year, and the significant weaknesses in maintaining sufficient records for property valuations, we are concerned about the Council's ability to address and properly evidence the processes they will be required to go through in implementing this standard. We recommend a clear action plan is developed and monitored to ensure the new standard is properly implemented.

Investment Properties

The Code requires Investment Property to be carried at fair value at the reporting date. This requires annual revaluations of investment properties. The Council did not undertake a revaluation for some of its investment properties. The values of these properties were either below our reporting threshold or our assessment of the potential movement in value was below our reporting threshold. These properties were erroneously omitted from the instructions sent to the valuer. Furthermore, we identified a Community Asset that was erroneously revalued as part of investment properties. This asset should not have been revalued as it is carried at depreciated historic cost. Management subsequently reversed the impact of the revaluation in the accounts. We recommend that the Council should undertake an annual revaluation of all its investment properties held at year-end as required by the Code.



07

Assessment of Control Environment



Assessment of Control Environment

Financial controls

It is the responsibility of the Authority to develop and implement systems of internal financial control and to put in place proper arrangements to monitor their adequacy and effectiveness in practice. Our responsibility as your auditor is to consider whether the Council has put adequate arrangements in place to satisfy itself that the systems of internal financial control are both adequate and effective in practice.

As part of our audit of the financial statements, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. As we have adopted a fully substantive approach, we have therefore not tested the operation of controls. Although our audit was not designed to express an opinion on the effectiveness of internal control we are required to communicate to you significant deficiencies in internal control.

We wish to report the following matters:

We identified a significant deficiency with regards to the property valuations process and closedown procedures. There were a number of instances whereby the Finance team were not fully aware of information provided by the Property team. There was a general lack of communication between the Finance team and the Property team. A formal year-end process is required to ensure that information received by the Property team is communicated effectively to the Finance team.

We were also informed of errors in VAT where the financial system was overriding VAT rates in relation to off-street parking charges and building control. Although the amounts were below our reporting threshold we performed additional procedures to ensure that VAT was accounted for correctly.



08 Data Analytics



Use of Data Analytics in the Audit

▶ Data analytics – Journal entries

Analytics Driven Audit

Data analytics

We used our data analysers to enable us to capture entire populations of your financial data. These analysers:

- Help identify specific exceptions and anomalies which can then be the focus of our substantive audit tests; and
- Give greater likelihood of identifying errors than traditional, random sampling techniques.

In 2018/19, our use of these analysers in the authority's audit included testing journal entries, to identify and focus our testing on those entries we deem to have the highest inherent risk to the audit.

We capture the data through our formal data requests and the data transfer takes place on a secured EY website. These are in line with our EY data protection policies which are designed to protect the confidentiality, integrity and availability of business and personal information.

Journal Entry Analysis

We obtain downloads of all financial ledger transactions posted in the year. We perform completeness analysis over the data, reconciling the sum of transactions to the movement in the trial balances and financial statements to ensure we have captured all data. Our analysers then review and sort transactions, allowing us to more effectively identify and test journals that we consider to be higher risk, as identified in our audit planning report.



Page 87

9

Independence

Confirmation

We confirm that there are no changes in our assessment of independence since our confirmation in our audit planning board report dated 15 January 2019.

We complied with the FRC Ethical Standards and the requirements of the PSAA's Terms of Appointment. In our professional judgement the firm is independent and the objectivity of the audit engagement partner and audit staff has not been compromised within the meaning of regulatory and professional requirements.

We consider that our independence in this context is a matter which you should review, as well as us. It is important that you and your Governance, Audit and Finance Board consider the facts known to you and come to a view. If you would like to discuss any matters concerning our independence, we will be pleased to do this at the next meeting of the Governance, Audit and Finance Board.

We confirm we have not undertaken non-audit work outside the NAO Code requirements, other than starting the provision of services as a Reporting Accountant for your Housing Benefit Subsidy claim.

Independence



Relationships, services and related threats and safeguards



The FRC Ethical Standard requires that we provide details of all relationships between Ernst & Young (EY) and your Authority, and its directors and senior management and its affiliates, including all services provided by us and our network to your Authority, its directors and senior management and its affiliates, and other services provided to other known connected parties that we consider may reasonably be thought to bear on the our integrity or objectivity, including those that could compromise independence and the related safeguards that are in place and why they address the threats.

There are no relationships from 1 April 2018 to the date of this report, which we consider may reasonably be thought to bear on our independence and objectivity.

Services provided by Ernst & Young

Below includes a summary of the fees that you have paid to us in the year ended 31 March 2019 in line with the disclosures set out in FRC Ethical Standard and in statute.

We confirm that none of the services listed in the table below has been provided on a contingent fee basis.

As at the date of this report, we are contracted to provide audit services for a further four years from 1 April 2019.

Independence

Fee analysis

As part of our reporting on our independence, we set out below a summary of the fees paid for the year ended 31 March 2019.

We undertaken non-audit work as the Reporting Accountant for the Council's Housing Benefit Subsidy Claim.

	Final Fee 2018/19	Planned Fee 2018/19	Scale Fee 2018/19	Final Fee 2017/18
	£	£	£	£
Total Audit Fee – Code work	83,674**	37,561*	36,036	59,686
Non-audit work – Grant claims	27,733***	12,483	N/A	13,430
Total non-audit services	27,733	12,483	N/A	13,430
Total fees	111,407	50,044	N/A	73,116

* The planned fee for our Code work includes £1,525 for the group accounts work in respect of the joint venture with Norse South East. This fee also occurred in the prior year but a lower fee has been charged this year due to reduced scoping. We reported this increase above the scale fee in our January planning report.

** The proposed final fee includes £3,528 in respect of additional work required to gain assurance over the significant risk in respect of the value for money conclusion. An equivalent fee was also occurred in the prior year.

It also includes £42,585 in respect of additional work performed on PPE valuations, financial instruments, VAT, going concern and our internal consultation process and more generally as a result of the level of misstatements and errors in the accounts and the resulting corrections. We have made reference to these errors throughout this report. The audit work had to be performed over multiple final visits due to the significant delays encountered. These additional fees have been discussed with the Chief Finance Officer and is subject to approval by the PSAA.

*** Our final fee for the work on the Housing Benefit Subsidy claim includes £15,250 in relation to additional work required to review and capture extended testing and the impact thereof on our Reporting Accountant's report. We carried out seven lots of extended testing as a result of errors identified which included a high number of failed cases with varying complexity. Our additional fee is driven by the number and complexity of errors identified as reperformance is required for all failed cases and a proportion of passed cases from our extended samples.







10

Appendices

Appendix A

Required communications with the Audit Committee





There are certain communications that we must provide to the Audit Committees of UK clients. We have detailed these here together with a reference of when and where they were covered:

			 Our Reporting to you
Required communications	 What is reported?	  When and where	
Terms of engagement	Confirmation by the Governance, Audit and Finance Board of acceptance of terms of engagement as written in the engagement letter signed by both parties.		The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies
Our responsibilities	Reminder of our responsibilities as set out in the engagement letter.		15 January 2019 Audit planning report
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified.		15 January 2019 Audit planning report
Significant findings from the audit	<ul style="list-style-type: none"> • Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures • Significant difficulties, if any, encountered during the audit • Significant matters, if any, arising from the audit that were discussed with management • Written representations that we are seeking • Expected modifications to the audit report • Other matters if any, significant to the oversight of the financial reporting process 		15 January 2019 Audit planning report

Appendix A

		Our Reporting to you
Required communications	What is reported?	When and where
Going concern	<p>Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:</p> <ul style="list-style-type: none"> • Whether the events or conditions constitute a material uncertainty • Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements • The adequacy of related disclosures in the financial statements 	2019 Audit results report
Misstatements	<ul style="list-style-type: none"> • Uncorrected misstatements and their effect on our audit opinion • The effect of uncorrected misstatements related to prior periods • A request that any uncorrected misstatement be corrected • Material misstatements corrected by management 	2019 Audit results report
Subsequent events	<ul style="list-style-type: none"> • Enquiry of the Governance, Audit and Finance Board where appropriate regarding whether any subsequent events have occurred that might affect the financial statements. 	To be confirmed with letter of representation at the next Governance, Audit and Finance Board meeting
Fraud	<ul style="list-style-type: none"> • Enquiries of the Governance, Audit and Finance Board to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the Authority • Any fraud that we have identified or information we have obtained that indicates that a fraud may exist • Unless all of those charged with governance are involved in managing the Authority, any identified or suspected fraud involving: <ol style="list-style-type: none"> a. Management; b. Employees who have significant roles in internal control; or c. Others where the fraud results in a material misstatement in the financial statements. • The nature, timing and extent of audit procedures necessary to complete the audit when fraud involving management is suspected • Any other matters related to fraud, relevant to Governance, Audit and Finance Board responsibility. 	2019 Audit results report We have no matters to report

Appendix A

		 Our Reporting to you
Required communications	 What is reported?	  When and where
Related parties	Significant matters arising during the audit in connection with the Authority's related parties including, when applicable: <ul style="list-style-type: none"> • Non-disclosure by management • Inappropriate authorisation and approval of transactions • Disagreement over disclosures • Non-compliance with laws and regulations • Difficulty in identifying the party that ultimately controls the Authority 	2019 Audit results report We have no matters to report
Independence	Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence. Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as: <ul style="list-style-type: none"> • The principal threats • Safeguards adopted and their effectiveness • An overall assessment of threats and safeguards • Information about the general policies and process within the firm to maintain objectivity and independence • Communications whenever significant judgments are made about threats to objectivity and independence and the appropriateness of safeguards put in place. 	15 January 2019 Audit planning report 2019 Audit results report

Appendix A

		Our Reporting to you
Required communications	What is reported?	When and where
External confirmations	<ul style="list-style-type: none"> Management's refusal for us to request confirmations Inability to obtain relevant and reliable audit evidence from other procedures. 	2019 Audit results report We have no matters to report
Consideration of laws and regulations	<ul style="list-style-type: none"> Subject to compliance with applicable regulations, matters involving identified or suspected non-compliance with laws and regulations, other than those which are clearly inconsequential and the implications thereof. Instances of suspected non-compliance may also include those that are brought to our attention that are expected to occur imminently or for which there is reason to believe that they may occur Enquiry of the Governance, Audit and Finance Board into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the audit committee may be aware of 	2019 Audit results report We have no matters to report
Significant deficiencies in internal controls identified during the audit	<ul style="list-style-type: none"> Significant deficiencies in internal controls identified during the audit. 	2019 Audit results report
Group Audits	<ul style="list-style-type: none"> An overview of the type of work to be performed on the financial information of the components An overview of the nature of the group audit team's planned involvement in the work to be performed by the component auditors on the financial information of significant components Instances where the group audit team's evaluation of the work of a component auditor gave rise to a concern about the quality of that auditor's work Any limitations on the group audit, for example, where the group engagement team's access to information may have been restricted Fraud or suspected fraud involving group management, component management, employees who have significant roles in group-wide controls or others where the fraud resulted in a material misstatement of the group financial statements. 	15 January 2019 Audit planning report 2019 Audit results report We have no matters to report

Appendix A

		Our Reporting to you
Required communications	What is reported?	When and where
Written representations we are requesting from management and/or those charged with governance	<ul style="list-style-type: none"> Written representations we are requesting from management and/or those charged with governance 	2019 Audit results report
Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	<ul style="list-style-type: none"> Material inconsistencies or misstatements of fact identified in other information which management has refused to revise 	2019 Audit results report We have no matters to report
Auditors report	<ul style="list-style-type: none"> Any circumstances identified that affect the form and content of our auditor's report 	2019 Audit results report
Fee Reporting	<ul style="list-style-type: none"> Breakdown of fee information when the audit planning report is agreed Breakdown of fee information at the completion of the audit Any non-audit work 	15 January 2019 Audit planning report 2019 Audit results report

Page 96

Management representation letter

Management Rep Letter

To be prepared on Havant Borough Council's letterhead

XX XX 2019

Ernst & Young
Wessex House,
19 Threefield Lane,
Southampton
SO14 3QB United Kingdom

Page 97

This letter of representations is provided in connection with your audit of the consolidated and council financial statements of Havant Borough Council ("the Group and Council") for the year ended 31 March 2019. We recognise that obtaining representations from us concerning the information contained in this letter is a significant procedure in enabling you to form an opinion as to whether the consolidated and council financial statements give a true and fair view of the Group and Council financial position of Havant Borough Council as of 31 March 2019 and of its financial performance and its cash flows for the year then ended in accordance with CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 for the Group and Council.

We understand that the purpose of your audit of our financial statements is to express an opinion thereon and that your audit was conducted in accordance with International Standards on Auditing (UK and Ireland), which involves an examination of the accounting system, internal control and related data to the extent you considered necessary in the circumstances, and is not designed to identify - nor necessarily be expected to disclose - all fraud, shortages, errors and other irregularities, should any exist.

Accordingly, we make the following representations, which are true to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

A. Financial Statements and Financial Records

1. We have fulfilled our responsibilities, under the relevant statutory authorities, for the preparation of the financial statements in accordance with the Accounts and Audit Regulations 2015 and CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 for the Group and Council.
2. We acknowledge, as members of management of the Group and Council, our responsibility for the fair presentation of the consolidated and council financial statements. We believe the consolidated and council financial statements referred to above give a true and fair view of the financial position, financial performance and cash flows of the Group and Council in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19, and are free of material misstatements, including omissions. We have approved the consolidated group and council financial statements.
3. The significant accounting policies adopted in the preparation of the Group and Council financial statements are appropriately described in the Group and Council financial statements.

Management representation letter

Management Rep Letter

4. As members of management of the Group and Council, we believe that the Group and Council has a system of internal controls adequate to enable the preparation of accurate financial statements in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 for the Group and Council that are free from material misstatement, whether due to fraud or error.

5. We believe that the effects of any unadjusted audit differences, summarised in the accompanying schedule, accumulated by you during the current audit and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. We have not corrected these differences identified by and brought to the attention from the auditor because [*specify reasons for not correcting misstatements*].

B. Non-compliance with law and regulations, including fraud

1. We acknowledge that we are responsible to determine that the Group and Council's activities are conducted in accordance with laws and regulations and that we are responsible to identify and address any non-compliance with applicable laws and regulations, including fraud.

2. We acknowledge that we are responsible for the design, implementation and maintenance of internal controls to prevent and detect fraud.

3. We have disclosed to you the results of our assessment of the risk that the consolidated and council financial statements may be materially misstated as a result of fraud.

4. We have disclosed to you, and provided you full access to information and any internal investigations relating to, all instances of identified or suspected non-compliance with law and regulations, including fraud, known to us that may have affected the Group or Council (regardless of the source or form and including, without limitation, allegations by "whistleblowers") including non-compliance matters:

- Involving financial statements;
- related to laws and regulations that have a direct effect on the determination of material amounts and disclosures in the consolidated or Council's financial statements;
- related to laws and regulations that have an indirect effect on amounts and disclosures in the financial statements, but compliance with which may be fundamental to the operations of the Group or Council's activities, its ability to continue to operate, or to avoid material penalties;
- involving management, or employees who have significant roles in internal controls, or others; or
- in relation to any allegations of fraud, suspected fraud or other non-compliance with laws and regulations communicated by employees, former employees, analysts, regulators or others.

C. Information Provided and Completeness of Information and Transactions

1. We have provided you with:

- Access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
- Additional information that you have requested from us for the purpose of the audit; and
- Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.

2. All material transactions have been recorded in the accounting records and are reflected in the consolidated and Council financial statements.

Management representation letter

Management Rep Letter

3. We have made available to you all minutes of the meetings of the Council and committees (or summaries of actions of recent meetings for which minutes have not yet been prepared) held through the year to the most recent meeting on the following date: *[list date]*.
4. We confirm the completeness of information provided regarding the identification of related parties. We have disclosed to you the identity of the Group and Council's related parties and all related party relationships and transactions of which we are aware, including sales, purchases, loans, transfers of assets, liabilities and services, leasing arrangements, guarantees, non-monetary transactions and transactions for no consideration for the period ended, as well as related balances due to or from such parties at the year end. These transactions have been appropriately accounted for and disclosed in the consolidated and Council financial statements.
5. We believe that the significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable.
6. We have disclosed to you, and the Group and Council has complied with, all aspects of contractual agreements that could have a material effect on the consolidated and Council financial statements in the event of non-compliance, including all covenants, conditions or other requirements of all outstanding debt.

D. Liabilities and Contingencies

1. All liabilities and contingencies, including those associated with guarantees, whether written or oral, have been disclosed to you and are appropriately reflected in the consolidated and Council financial statements.
2. We have informed you of all outstanding and possible litigation and claims, whether or not they have been discussed with legal counsel.
3. We have recorded and/or disclosed, as appropriate, all liabilities related litigation and claims, both actual and contingent, and have disclosed in the consolidated and Council financial statements all guarantees that we have given to third parties.

E. Subsequent Events

1. Other than events described in Note 42 to the consolidated and Council financial statements, there have been no events, including events related to COVID-19 pandemic, subsequent to period end which require adjustment of or disclosure in the consolidated and Council financial statements or notes thereto.

F. Group audits

1. There are no significant restrictions on our ability to distribute the retained profits of the Group because of statutory, contractual, exchange control or other restrictions other than those indicated in the Group financial statements.
2. Necessary adjustments have been made to eliminate all material intra-group unrealised profits on transactions amongst council, subsidiary undertakings and associated undertakings

G. Other information

1. We acknowledge our responsibility for the preparation of the other information. The other information comprises the Narrative Statement and the Annual Governance Statement.

Management representation letter

Management Rep Letter

2. We confirm that the content contained within the other information is consistent with the consolidated and Council financial statements.

H. Comparative information – corresponding financial information

1. In closing the accounts for 2018/19 the Council discovered that the Property, Plant and Equipment assets had not had revised valuations for the financial years 2017/18 and 2018/19 processed. These all related to Other Land and Buildings assets. All valuations have now been processed in 2018/19 but, as a result, the prior year comparator figures, in relation to PPE and related notes have had to be amended by £3.138m.

2. The comparative amounts have been correctly restated to reflect the above matter and appropriate note disclosure of this restatement has also been included in the current year's consolidated and Council financial statements.

I. Going concern

1. Note 42 to the consolidated and Council financial statements discloses all the matters of which we are aware that are relevant to the Company's ability to continue as a going concern, including significant conditions and events, our plans for future action, and the feasibility of those plans

J. Ownership of Assets

1. Except for assets capitalised under finance leases, the Group and Council has satisfactory title to all assets appearing in the balance sheet, and there are no liens or encumbrances on the Group and Council's assets, nor has any asset been pledged as collateral. All assets to which the Group and Council has satisfactory title appear in the balance sheet.

2. All agreements and options to buy back assets previously sold have been properly recorded and adequately disclosed in the consolidated and Council financial statements.

3. There are no formal or informal compensating balance arrangements with any of our cash and investment accounts.

K. Reserves

1. We have properly recorded or disclosed in the consolidated and Council financial statements the useable and unusable reserves.

L. Use of the Work of a Specialist – Actuary

1. We agree with the findings of the specialists that we engaged to evaluate the valuation of the net pension liability and have adequately considered the qualifications of the specialists in determining the amounts and disclosures included in the consolidated and Council financial statements and the underlying accounting records. We did not give or cause any instructions to be given to the specialists with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an effect on the independence or objectivity of the specialists.

Management representation letter

Management Rep Letter

M. Use of the Work of a Specialist – Property valuers

1. We agree with the findings of the specialists that we engaged to evaluate the valuation of the investment property and operational land and buildings and have adequately considered the qualifications of the specialists in determining the amounts and disclosures included in the consolidated and Council financial statements and the underlying accounting records. We did not give or cause any instructions to be given to the specialists with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an effect on the independence or objectivity of the specialists.

N. Estimates

NNDR appeals and other provisions estimate

1. We believe that the measurement processes, including related assumptions and models, used to determine the accounting estimates have been consistently applied and is appropriate in the context of CIPFA LASAAC Code of Practice of Local Authority Accounting in the United Kingdom 2018/19.
2. We confirm that the significant assumptions used in making the estimate of provisions (including the NNDR appeals provision) appropriately reflect our intent and ability to carry out providing services on behalf of the entity.
3. We confirm that the disclosures made in the consolidated and Council financial statements with respect to the accounting estimates are complete, including the effects of the COVID-19 pandemic and made in accordance with CIPFA LASAAC Code of Practice of Local Authority Accounting in the United Kingdom 2018/19.
4. We confirm that no adjustments are required to the accounting estimate and disclosures in the consolidated and council financial statements due to subsequent events, including due to the COVID-19 pandemic.

Valuation of investment property and operational land and buildings estimate

1. We believe that the measurement processes, including related assumptions and models, used to determine the accounting estimates have been consistently applied and is appropriate in the context of CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.
2. We confirm that the significant assumptions used in making the estimate of the valuation of investment property and operational land and buildings appropriately reflect our intent and ability to use and maintain these assets on behalf of the entity.
3. We confirm that the disclosures made in the consolidated and Council financial statements with respect to the accounting estimates are complete, including the effects of the COVID-19 pandemic and made in accordance with CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.
4. We confirm that no adjustments are required to the accounting estimate and disclosures in the consolidated and Council financial statements due to subsequent events, including due to the COVID-19 pandemic.

Management representation letter

Management Rep Letter

Pensions Valuation Estimate

1. We believe that the measurement processes, including related assumptions and models, used to determine the accounting estimates have been consistently applied and is appropriate in the context of CIPFA LASAAC Code of Practice of Local Authority Accounting in the United Kingdom 2018/19.
2. We confirm that the significant assumptions used in making the estimate of pensions valuation appropriately reflect our intent and ability to carry out providing services on behalf of the entity.
3. We confirm that the disclosures made in the consolidated and Council financial statements with respect to the accounting estimates are complete, including the effects of the COVID-19 pandemic and made in accordance with CIPFA LASAAC Code of Practice of Local Authority Accounting in the United Kingdom 2018/19.
4. We confirm that no adjustments are required to the accounting estimate and disclosures in the consolidated and Council financial statements due to subsequent events, including due to the COVID-19 pandemic.

O. Retirement benefits

1. On the basis of the process established by us and having made appropriate enquiries, we are satisfied that the actuarial assumptions underlying the scheme liabilities are consistent with our knowledge of the business. All significant retirement benefits and all settlements and curtailments have been identified and properly accounted for.

Yours faithfully,

Lydia Morrison – Chief Finance Officer (S151 Officer)

Councillor A Briggs - Chair of the Governance, Audit and Finance Board

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ED None

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NON EXEMPT

HAVANT BOROUGH COUNCIL

Governance Audit and Finance Board Committee

29 July 2020

STATEMENT OF ACCOUNTS 2018/19 AND LETTER OF REPRESENTATION – HAVANT BOROUGH COUNCIL

Chief Finance Officer

FOR DECISION

Cabinet: Finance Cllr Inkster

Key Decision: No

1.0 Purpose of Report

- 1.1. To present the audited Statement of Accounts 2018/19 for approval and signing.
- 1.2. To present the Council's Letter of Representation for approval and signing.

2.0 Recommendation

- 2.1. That the Board agree the Statement of Accounts for 2018/19, that the Chairman certifies the approval by signing the relevant page of the accounts and the s151 Officer certify the approval of the Accounts by signing the relevant pages of the Accounts
- 2.2. That the Board agree the Letter of Representation, and the Chairman of the Committee and s151 Officer sign the letter.

3.0 Executive Summary

- 3.1. The Council is required to approve the audited Statement of Accounts for the financial year ending 31st March 2019.
- 3.2. The Council is also required to respond formally to the Audit Results Report as issued by the external auditors, this response is provided within the Letter of Representation.

4.0 Additional Budgetary Implications

4.1. None

5.0 Background

5.1. The Accounts and Audit Regulations 2015 require the Chief Finance Officer to first sign the accounts no later than 31st May and certify that they present a true and fair view of the financial position of the Council at the end of the year to which it relates and its income and expenditure for that year. The Chief Finance Officer is required to recertify the presentation of the accounts for approval by the Governance, Audit and Finance Board.

5.2. The accounts have been audited by Ernst & Young and their conclusions have been presented to the Committee. The Audit report outlines the findings of the audit and corrections which were required.

5.3. The Letter of Representation is the Council's formal response to the Audit Results report. It outlines how the Council has complied with its statutory duties.

5.4. The draft Letter of Representation is attached as Appendix B to this report.

6.0 Resource Implications

6.1. Financial Implications - None

6.2. Human Resources Implications - None

7.0 Legal Implications

7.1. If the Statutory Accounts are not noted and agreed, the Council will not meet its statutory obligations to publish audited accounts.

8.0 Communication

8.1. The Statutory Accounts will be made public on our website.

9.0 Appendices:

Appendix A: Draft Statement of Accounts 2018/19

Appendix B: Draft Letter of Representation

Agreed and signed off by:

Monitoring Officer: 17/07/20

S151 Officer: 17/07/20

Job Title: Chief Finance Officer
Telephone: 02392 446501
E-Mail: Lydia.Morrison@Havant.gov.uk

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**HAVANT BOROUGH COUNCIL
STATEMENT OF ACCOUNTS
2018 – 2019**

CONTENTS

Contents

NARRATIVE STATEMENT	4
STATEMENT OF RESPONSIBILITIES FOR THE STATEMENT OF ACCOUNTS	16
INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF HAVANT BOROUGH COUNCIL	18
MOVEMENT IN RESERVES STATEMENT	19
EXPENDITURE & FUNDING ANALYSIS	21
COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT	24
BALANCE SHEET	26
CASH FLOW STATEMENT	Error! Bookmark not defined.
NOTES TO THE CORE FINANCIAL STATEMENTS	28
1. Accounting Policies	28
2. Accounting Standards that have been issued but have not yet been adopted	42
3. Critical Judgements in applying accounting policies	43
4. Assumptions made about the future and other major sources of estimation uncertainty	44
5. Exceptional items	45
6. Material Items of Income and Expense	45
7. Prior Period Adjustments	45
8. Notes to the Expenditure and funding analysis	50
9. Adjustments between the accounting basis and funding basis under regulations	53
10. Transfers to/from earmarked reserves	55
11. Other Operating Expenditure	55
12. Financing and Investment Income and Expenditure	56
13. Taxation and non-specific grant income	56
14. Property, plant and equipment	57
15. Investment Properties	60
16. Intangible Assets	60
17. Financial Instruments	61
18. Inventories	63
19. Debtors	64
20. Cash and cash equivalents	64
21. Creditors	65
22. Provisions	66
23. Usable reserves	67
24. Unusable reserves	67
25. Net cash flow from operating activities	72
26. Net cash flow from investing activities	73
27. Net cash flow from financing activities	73
28. Officers' Remuneration	74
29. Members' Allowances	75
30. External audit costs	76
31. Grant Income	76

CONTENTS

32. Related Parties	78
33. Interests in Other Entities	78
34. Capital Expenditure and Capital Financing	81
35. Leases	82
36. Impairment losses	84
37. Termination Benefits	84
38. Defined benefit pension schemes	84
39. Contingent liabilities and contingent assets	90
40. Nature and extent of risks arising from financial instruments	90
41. Agency Services	92
42. Events after the Balance Sheet Date	93
43. Authorisation of the statement of accounts	955
COLLECTION FUND	966
1. Calculation of the council tax base	97
2. Non-Domestic Rateable Value and Rate Multiplier	977
3. Precepts and Demands on the Collection Fund	97
GLOSSARY OF TERMS	99

Enquiries regarding the contents of this report should be made to:

The Finance Department,
Havant Borough Council,
Public Service Plaza, Civic Centre Road,
Havant, Hants. PO9 2AX
Telephone: 01749 341270

This report and further details of the Council's finances
can also be viewed on the Council's website
<https://www.havant.gov.uk>

NARRATIVE STATEMENT

Introduction to Havant Borough Council

The Statutory Accounts have been prepared in accordance with the requirements of the Chartered Institute of Public Finance and Accountancy (CIPFA). It therefore aims to provide information to the public, including electors, residents and businesses of Havant Borough; Council Members, partners and other stakeholders of Havant Borough Council.

The Statutory Accounts aim to provide:

An understanding of the overarching financial position of the Council.
Confidence that the public funds entrusted to the Council have been accounted for appropriately.
Assurance that the financial position of the Council is robust.

Structure of the Narrative Statement

The Narrative Statement is structured into:

Key facts about Havant Borough Council
Chief Finance Officer (Section 151 Officer's statement)
Performance against Business Plans & Council Strategy
Financial performance
Budget / MTFS 2019/20
Explanations of financial statements.

Key facts about Havant Borough Council



Havant Borough Council is responsible for services such as waste collection and recycling, council tax collection, leisure services, planning, housing, building control, environmental health, car parking and economic development. Policies and strategies are developed and determined by our 38 councillors. The Council employs 201 full time equivalent members of staff serving a population of 124,900.

Havant Borough Councils' mission, as elected leaders and public servants is to play our part and shape council services to ensure that the communities of Havant Borough will be increasingly prosperous, vibrant and active. The Council will put our customers at the centre of everything we do.

In recent years the Government's austerity measures have placed significant financial pressures on the Council and will continue into the foreseeable future.

Our operational priorities that will help us deliver our corporate strategy mission are; financial sustainability, economic growth, environmental sustainability, public service excellence and creativity and innovation.

Overall Financial Position

The revenue outturn position for the year was £528k surplus before carry forwards of £428k and £100k after carry forwards.

This is a real achievement against £2.2m of "Budget Challenge" targets that were included within the 2018/19 budget. These have been offset through income growth and operational efficiencies.

NARRATIVE STATEMENT

The Council's overall financial position remains sustainable with adequate levels of reserves. There are robust processes in place for budget setting and forecasting, and the Council has in place a Medium Term Financial Strategy (MTFS) that is both understood and owned by the business managers. There are sound systems in place to ensure that financial performance is understood, and that cash is collected, that debtor balances are minimised, and all funding streams are exploited. A full deep-dive review of the MTFS will take place during 2019/20 to ensure the Council remains financially sustainable in the future.



The MTFS agreed by Council in February 2018 shows initial surpluses turning into deficits, but with an overall cumulative surplus being maintained.

	2018/19 £m	2019/20 £m	2020/21 £m	2021/22 £m	2022/23 £m
Annual (Surplus)/Deficit	Nil	(0.219)	(0.170)	0.042	0.248
Cumulative Surplus	-	(0.219)	(0.389)	(0.347)	(0.099)

Despite all the additional demand pressures, austerity measures and national funding cuts in public services Havant Borough Council continues to deliver efficient and high-quality services to its residents. Operational performance remains strong with all national planning application targets met as well as high collection rates for Council Tax and business rates.

Lydia Morrison
Chief Finance Officer (s151)

Performance against our Corporate Strategy 2018/19

Havant Borough Council's mission is to ensure that the communities of Havant will be increasingly prosperous, vibrant and active, putting customers at the centre of everything we do. The strategy to deliver this is to develop a mixed economy of service delivery, with a strong focus on commissioning high quality services.

Our corporate strategy is focused around operational priorities grouped into the following areas; financial sustainability, economic growth, environmental sustainability, public service excellence, creativity and innovation. During 2018/19 as part of the budget setting process for 2019/20 we refreshed our Corporate Strategy with particular focus on our new Regeneration Strategy approved during 2018/19, with renewed focus on our customers and on financial sustainability.

(1) Financial sustainability

We are committed to ensure that our council services contributed to us being financially sustainable in the environment of a reducing government grant, and being affordable to our customers. During 2018/19 we increased Council Tax by 2.99%, this increase was in the context of falling government revenue support grants and the need to ensure our residents receive the best possible service.



NARRATIVE STATEMENT

2018/19 saw the third year of our successful joint venture, Norse South East. Norse South East provides our operational services to residents and during its third year of operation met its financial targets of income back to the Council. During the year Norse continued to grow new services as it looks to expand its business in order to deliver a greater financial return to Havant Borough Council in future years.

2018/19 saw the continuation of the ground-breaking partnership between six councils more than 85 miles apart through the delivery partner Capita. The Partnership is the first-time local authorities have looked beyond their immediate neighbours to share services to utilise their vision to deliver improved and more affordable services. Outsourced services at HBC include the HR Service, which has implemented new HR and payroll systems across the partnership, the IT service, Land Charges, Customer Services, Revenue and Benefits and the Finance service, with new finance software as part of the system upgrades. The Council continues to work with Capita in order to improve services and secure the overall headline savings and achieve the best financial outcome for the Council.

(2) Public Service Excellence

Our priority is to support our most vulnerable customers. The Council continues to see a rise in the number of homeless/potentially homeless customers. During the year there were a total of 804 homelessness prevention outcome cases with only 7 cases accepted as homelessness. This represents the high levels of intervention and casework that the Council managed in order to prevent homelessness. In addition, at the end of March the Government gave a grant to be used specifically to reduce length of time in Bed & Breakfast and this will allow for any additional initiatives in our Strategy Action Plan.

Regarding the Supporting Families project, Havant was set a target by Hampshire County Council to engage with families and support them on a range of issues such as employment, financial matters, domestic abuse, health and children in need. The target set for 2018/19 was 150 families which was achieved and exceeded with 195 families given support.

The council continued to engage with our communities and deliver a number of supportive initiatives including community events. We delivered various Making Every Contact Count (MECC) sessions, including two Dementia Friendly sessions and a Sport England Get Up & Go project targeting over 55's to increase physical activity. In addition, the first year of our Havant Community Lottery saw more than 63,000 tickets being sold in the first 12 months, raising a £37,812 for good causes in the borough, a total of 60% of every ticket going back to the community.

A number of community infrastructure projects were progressed during the year including improvements to Barton's Green changing pavilion which was fully refurbished following receipt of a grant. In addition, Havant Rugby Club saw improvements to their facilities enabled them to become World Rugby compliant with the Council supporting through a £15,000 developer contribution. During the year community infrastructure levy spending was agreed with more than £1.29m earmarked for new infrastructure and community projects over the coming years.



During the year a number of major events took place in the borough, the Emsworth Food Fortnight, Windsurfing Festival, Virgin Kitesurfing and annual Fireworks, showcasing the borough on a national scale and engaging with the local community. More than 70 students from the borough joined the Mayor, councillors and community groups for the fifth annual Youth Conference in March. In addition, the annual Junior Citizen event also took place, attended by over 1000 school children from local schools its aim is to teach children key life skills and importance of being good citizens.

NARRATIVE STATEMENT

(3) Creativity and Innovation

Havant Borough Council is an exciting and vibrant place to work. The Council provides community leadership and is at the cutting edge of innovation and practice. Our Public Service Plaza provides a working environment which is shared with several important public, private and voluntary sector partners. The Plaza is a centre of excellence and is vital to the integration of public services and we continue to explore opportunities to grow the Plaza.

We are committed to developing and supporting our staff. We continued to develop a modern and effective employment package for our staff. Heads of Service and Team Leaders have completed a comprehensive HR skills programme. This has included information on policies and procedures in addition to appropriate decision making in respect of people management matters. A change of culture remains central to a high performing Council. There are now four specific workstreams dedicated to an area of change and supported by staff volunteers in the areas of Wellbeing, Performance and Productivity, Good Governance and Communications and Engagement. Our HBC website, designed to make priority services easy to find has continued to grow as well as our social media presence. When compared to the last quarter from last year (2017/18), the number of website visits has increased by 45% (up from 131,475 to 191,313). The website usage continues to increase and is becoming the default place to access council services and information with more users visiting the site every year.



We have continued our quarterly You're a Star staff awards, and our annual staff awards took place in December 2018, recognising individual and team achievements. We also held a Leadership Conference for our current and future leaders.

Our Councillors have also been involved in a Councillor Development pilot and were successfully awarded Councillor Charter status accreditation during the year. Work now continues to embed councillor development

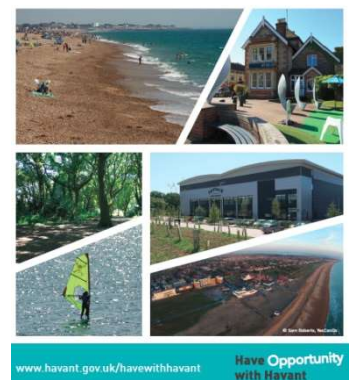
Our involvement in the Eastern Solent Coastal Partnership, formed in 2012, continues. This innovative initiative was driven forward by the need for coastal management that recognises coastal flooding and erosion risk impacts not exclusive to local authority boundaries.

Our Place Shaping work

(4) Economic growth

During 2018/19 the Council adopted a new Regeneration Strategy which would allow for the transformation of the borough over the next 18 years. The Regeneration Strategy sets out ambitious plans for major regeneration across the area. The strategy identifies the opportunities that are available to overcome the housing, economic and transport challenges faced, whilst highlighting the potential benefits that can be gained for residents, visitors and investors. The regeneration programme priorities are the Civic Plaza redevelopment, Brockhampton West marketing, Hayling Island development and the wider borough promotion, in particular Havant Town Centre. Phase 2 projects include wider redevelopment opportunities in the town centres (Havant, Waterlooville and Leigh Park). With the approval of the Regeneration Strategy work in 2018/19 was focussed on establishing a team to deliver the work.

A Regeneration Strategy for Havant Borough 2018 - 2036



Homes England agreed a £3.4million funding deal with Havant Borough Council announced in 2018/19. The funding has been awarded through the Government's £450 million Local Authority Accelerated Construction Programme and will enable development of new homes on the Council's surface car parks at the Civic Campus. The Council plans to use the funding to accelerate the delivery of 121 apartments prioritising the use of modern methods of construction.

NARRATIVE STATEMENT

Another step forward for the regeneration of Havant was taken when Havant Borough Council and Havant and South Downs College hosted more than 25 local businesses at the first Havant Business Partnership event. The aim of the event was to create positive networks for the college, council and major businesses in the area. It is intended that this will be the start of a growing business networking forum for Havant. Delegates were invited to take part in discussion groups about the challenges businesses face in recruiting and retaining talent and how the regeneration plans will transform the borough for everyone's benefit.

(5) Local Plan

Our Local Plan has made significant progress over the year with agreement from the Council to submit to the Secretary of State for Housing, Communities and Local Government following the final proposed consultation. The Local Plan sets out how the Borough of Havant will develop over the next 17 years. It outlines the strategy for ensuring that the growth needed is delivered in the right places and is of the right character and quality. It also ensures that this growth is delivered alongside supporting roads, schools and services such as health, as well as retail, leisure and community facilities. The Havant Borough Local Plan 2036 includes a number of proposals to meet housing, employment and infrastructure needs for the borough. These include the regeneration of Havant and Waterlooville Town Centres together with Hayling Island Seafront. These are key priority sites in the newly adopted Regeneration Strategy.

(6) Environmental sustainability

2018/19 was the third year of our agreed Energy Strategy. Our strategy provides a framework to deliver energy projects across the borough until 2022. The strategy has three clear aims; improve energy efficiency, increase low carbon energy generation and demonstrate council leadership. During the year work focussed on an electric vehicle infrastructure project, with ChargePoint Services to provide three new electric vehicle chargers in the borough – enabling residents and visitors to charge quickly and efficiently on the go.

OUR THREE PRINCIPLES

The strategy is defined by three key principles:



As a member of the Eastern Coastal Solent Partnership work has continued to improve the local Coastline. In January 2019 the Hayling Island Funding and Implementation Strategy started with an assessment of the condition of defences around the island. Flood risk modelling is underway to develop an up to date picture of flood risk on the island and an assessment of potential economic benefits of undertaking future works is progressing. Funding for the Langstone protection scheme of £2.55M has been approved via pot building across four financial years 2018/19 – 2021/22. By working under a Shared Service Agreement, the costs of running the Partnership and its services are distributed and funded proportionally across each local authority. The Partnership has made substantial savings, whilst providing a higher quality of service and employing more staff. Since 2012 the Partnership has delivered over £1.8m in savings for the partners.



Impact of Covid-19

As a result of the final version of these statements being approved in July 2020 we have considered the impact of the Covid-19 pandemic on the Council. The pandemic has had a significant impact on the Council, although the vast majority of the financial impact will be in 2020/21 and possibly beyond. We have considered the impact on the Council's finances as an event after the balance sheet date (note 42 on page 93).

NARRATIVE STATEMENT

Financial Performance & Capital Summary

2018/19 Revenue Outturn

For the 2018/19 financial year, the Council agreed its budget for net revenue spending on General Fund services at £16.176m. Net revenue spending is financed in part by Government Grant and retained business rates, with the remainder being raised through the council tax, use of reserves and interest on external investments. The Council Tax charge for Council services was set at £204.48 for band D properties.

The table below compares the final outturn with the original budget. The basis for these figures is the Council's internal management accounts rather than the statutory published accounts which comply with International Financial Reporting Standards (IFRS).

	BUDGET	Actuals to date	VAR TO BUDGET
SERVICE	£000	£000	Fav(-) / Adv
Head of Neighbourhood Support	(142.8)	(83.5)	59.3
Head of Planning (H)	568.9	680.1	111.3
Head of Coastal Partnership	192.7	111.7	(81.0)
Head of Housing	548.9	386.6	(162.3)
Head of Communications	204.8	223.6	18.8
Head of Development	74.5	(105.2)	(179.7)
Head of Community Engagement	919.4	714.0	(205.4)
Estates	496.1	505.5	9.4
Head of Property	(1,402.7)	(1,195.7)	207.0
OPERATIONS & PLACE SHAPING	1,459.7	1,237.1	(222.7)
Head of Finance	966.7	1,712.7	746.0
Head of Organisational Development	918.6	946.2	27.6
Head of Legal	342.4	289.8	(52.6)
Head of Programmes Redesign & Quality	3,060.2	2,776.2	(283.9)
Head of Customer Services	3,681.7	3,564.9	(116.7)
5 Councils Staff and Contract	359.3	531.0	171.6
GOVERNANCE	9,328.9	9,820.9	492.0
Head of Commercial Development	127.5	161.7	34.1
Head of Regeneration (South)	(335.0)	132.4	467.4
Head of Environmental Services	3,888.1	4,397.9	509.8
COMMERCIAL	3,680.7	4,692.0	1,011.4
CONTRIBUTION (favourable) or adverse	14,469.3	15,750.0	1,280.7
Other Operating Income & Expenditure	852.8	770.8	(82.0)
Movement in Reserves	853.7	1,642.0	788.3
TOTAL MOVEMENT IN RESERVES AND OTHER	1,706.5	2,412.8	706.3
TOTAL NET EXPENDITURE	16,175.8	18,162.7	1,986.9
Council Tax & Business Rates	(11,462.4)	(12,671.6)	(1,209.2)
General Grants	(4,713.4)	(5,591.6)	(878.1)
FUNDING	(16,175.8)	(18,263.2)	(2,087.4)
(SURPLUS)/ DEFICIT	0.0	(100.5)	(100.5)

NARRATIVE STATEMENT

*Please note only material variances are analysed out in detail.

VAR TO BUDGET (Fav) / Adverse	SERVICE	NARRATIVE
59.3	Head of Neighbourhood Support	Adverse variance due to £250k budget challenge not being fully met. The greatest contribution were made from additional parking income of (£94k). Offset in part by additional bank charges. Further savings were made in reduced staffing and contract costs.
111.3	Head of Planning (H)	Adverse variance due to £50k budget challenge not being met and additional staffing costs.
(81.0)	Head of Coastal Partnership	Favourable variance due to grant income received from the Environmental Agency in 18/19 but spend anticipated in 19/20 due to a delay of commencement of works.
(162.3)	Head of Housing	Favourable variance comprised of (£234k) additional unbudgeted grant funding. Bed and Breakfast income increased by (£140k). Partially offset by £173k increased spend on homelessness prevention
18.8	Head of Communications	In line.
(179.7)	Head of Development	Favourable variance mainly attributable to higher than anticipated planning and inspection fees (£108k), unbudgeted grant income (£5k) and lower than planned payment of grants.
(205.4)	Head of Community Engagement	(£175k) national lottery funding received for Wecock farm, big local plan, remainder is due to vacancy savings.
9.4	Estates	In line.
207.0	Head of Property	Adverse variance due to reduction in expected investment property income following reclassification of assets.
746.0	Head of Finance	Variance is mainly due to review of balance sheet provisions, interest on investments and interest payable.
27.6	Head of Organisational Development	Corporate budget adjustment of £85k partially achieved through vacancy savings and a reduction in supplies and services costs.
(52.6)	Head of Legal	Favourable variance due to reduced spend on external legal and professional services.
(283.9)	Head of Programmes Redesign & Quality	Favourable variance due to delay of non-essential building maintenance. Partially offset by a reduction in land charges income due to reduced demand £33k, and increase in ICT licences across the council above anticipated budget and in-house CRM development.
(116.7)	Head of Customer Services	Favourable variance mainly due to vacancy savings (£157k), partially offset by redundancy costs and electoral grant income funding carried forward from 17/18.

This table is continued on the next page

NARRATIVE STATEMENT

171.6	5 Councils Staff and Contract	Adverse variance due to net review of cumulative net recharge position across the partnership. Additional pension transition costs and changes to staffing recharges.
34.1	Head of Commercial Development	Adverse variance due to a net staffing overspend of £77k. This has been partially offset by (£11k) additional income for professional services and a reduction in external third party professional fee and software purchases costs.
467.4	Head of Regeneration (South)	Overspend partially offset by a transfer from reserves reported through the Movement in Reserves.
509.8	Head of Environmental Services	Adverse variance due to £400k of budget challenges not met and an additional unanticipated £105k cost relating to waste services contract.

NARRATIVE STATEMENT

Capital Outturn 2018/19

The Capital outturn for 2018/19 was as follows,

Expenditure	Budget including Brought Forward £'000	Outturn £'000
Housing		
DFG Expenditure	734	967
	734	967
Operational Land and Buildings		
Front Lawn Works	-	306
Barton Green Pavilion	80	86
Refurbishment of HBC equipped play areas	75	25
Construct New Allotments	135	-
FCERM Scheme	-	32
S106 Funded - HBC Assets Acquisition of land	-	2
S106 Funded - Non HBC Assets Capital grant to public sector	-	8
	290	459
Investment Properties		
Development of Phase 1 of the Commercial Premises	54	-
Vehicles and Equipment		
Replacement of Noise Monitoring Equipment	22	11
Animal Warden Vehicle	30	-
Neighbourhood Quality Fleet Replacement	17	24
	69	34
Other Capital Expenditure		
Replacement of processing and application mgmt system	350	-
Asset Management Maintenance System	35	-
Building control software	50	17
	435	17
Total Expenditure	1,582	1,477
Financed by		
Increase in Capital Financing Requirement		-
Capital Receipts		510
Grants and Contributions		967
Contributions from Earmarked Reserves		-
Total Financing		1,477

NARRATIVE STATEMENT

Business Rates Retention Scheme

The principle behind the scheme is that local authorities retain a share of Business Rates collected from their local businesses. Authorities retain a share of growth in the business base, giving councils incentive to invest in local infrastructure. The government announced the continuation of several Business Rate reliefs throughout 2018/19. The impact of these reliefs was to reduce collectible business rates, and this has been offset by cash grants paid to the Council. The surplus or deficit on business rates will be redistributed between the Government, Havant Borough Council, Hampshire County Council, and Hampshire Fire and Rescue during 2019/20. The budget calculations for 2019/20 take into account this redistribution.

The table below demonstrates how the Council estimated its collectable business rates, how this is split between the participating authorities, the split of the overall 2018/19 (surplus)/deficit, and the impact on the General Fund in 2019/20, compared to actual performance in the year.

	Budget	Outturn
	£'000	£'000
Business Rates Yield		
Base Yield	35,936	35,608
Provision for backdated appeals	-	267
Cost of Collection	(138)	(138)
Adjustment for provision for bad debt	-	(102)
Transitional protection payment	(865)	(868)
Business Rates Yield	34,933	34,767
Distribution		
Central Government (50%)	17,467	17,467
Hampshire County Council (9%)	3,144	3,144
Hampshire Fire (1%)	349	349
Havant Borough Council (HBC) (40%)	13,973	13,973
Total Distribution	34,933	34,933
Collection Fund (Surplus)/Deficit B/fwd	2,071	2,286
Reallocation of prior year balance – HBC	(828)	(828)
Reallocation of prior year balance – Other	(1,243)	(1,243)
Collection Fund (Surplus)/Deficit in year	-	166
Collection Fund (Surplus)/Deficit C/fwd	-	381
Allocation of (Surplus)/Deficit		
Government Share (50%)	-	191
HBC Share (40%)	-	152
Hampshire County Council Share (9%)	-	34
Hampshire Fire (1%)	-	4
Total	-	381
Havant Borough District Council		
Retained Business Rates		
Non-Domestic Rating income	13,973	13,907
S31 Grant Income	1,296	1,245
Tariff paid to Central Government	(9,167)	(9,259)
Levy/ safety net paid to/by Central Government	(1,441)	(1,174)
Payment of prior year's estimated surplus / (deficit)	(828)	(828)
Total 2018/19 business rates income	3,833	3,891

NARRATIVE STATEMENT

Medium Term Financial Strategy

The Council agreed its Medium Term Financial Strategy as part of its budget setting process for 2019/20. The summary projections demonstrate the Council's ambitions for maintaining council tax at current levels and generating income.

	2019/20	2020/21	2021/22	2022/23	2023/24
	£M	£M	£M	£M	£M
Director of Regeneration & Place					
Head of Planning	1.088	0.961	0.970	0.980	0.990
Head of Environmental Services	4.266	4.351	4.438	4.527	4.618
Head of Coastal Partnership	0.139	0.142	0.145	0.148	0.150
Director of Operations & Neighbourhoods					
Head of Commercial Development	0.118	0.120	0.123	0.125	0.128
Head of Community Engagement	0.933	0.882	0.900	0.918	0.936
Head of Development	0.092	0.094	0.096	0.098	0.100
Head of Housing	0.537	0.548	0.559	0.570	0.581
Head of Neighbourhood Support	(0.234)	(0.239)	(0.243)	(0.248)	(0.253)
Director of Corporate Services					
5 Councils Staff and Contract	0.326	0.213	0.217	0.221	0.226
Head of Property	(1.292)	(1.318)	(1.344)	(1.371)	(1.399)
Head of Communications	0.199	0.203	0.207	0.211	0.215
Head of Customer Services	3.438	3.507	3.577	3.648	3.721
Head of Finance	0.886	0.904	0.922	0.940	0.959
Head of Legal	0.352	0.359	0.366	0.374	0.381
Head of Organisational Development	0.803	0.819	0.835	0.852	0.869
Head of Programmes Redesign	2.794	2.850	2.907	2.965	3.024
Contribution (Surplus) / Deficit	14.445	14.395	14.674	14.957	15.247
Corporate Pension Costs	0.853	0.853	0.853	0.853	0.853
Movement in Reserves (Capital Charges)	(1.091)	(0.984)	(0.984)	(0.984)	(0.984)
TOTAL NET EXPENDITURE	14.207	14.264	14.543	14.826	15.116
Council Tax	(8.324)	(8.366)	(8.407)	(8.449)	(8.492)
Council Tax Surplus from Prior Year	(0.002)	-	-	-	-
Retained Business Rates	(1.951)	(1.738)	(1.773)	(1.808)	(1.844)
Business Rates Growth	(0.981)	(0.491)	(0.515)	(0.541)	(0.568)
Business Rates Deficit from Prior Year	0.206	-	-	-	-
S31 Grants - Small Business Rate Relief	(1.568)	(1.599)	(1.631)	(1.664)	(1.697)
New Homes Bonus	(1.587)	(0.848)	(0.337)	(0.092)	-
TOTAL FUNDING	(14.207)	(13.041)	(12.663)	(12.554)	(12.601)
BUDGET (SURPLUS)/DEFICIT	0.000	1.223	1.879	2.272	2.515

NARRATIVE STATEMENT

Explanation of accounting statements

The Statement of Accounts for 2018/19 has been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom.

The purpose of the published Statement of Accounts is to give electors, local taxpayers, Councillors and other interested parties clear information about the Council's finances. The statements inform readers of the cost of services provided by the Council in the year 2018/19, how services were paid for and the Council's assets and liabilities at the year-end date of 31 March 2019.

The purpose of each of the main statements is explained below.

The following key statements are included:

The Movements in Reserves Statement

The Movements in Reserves Statement reconciles the balance on the Comprehensive Income and Expenditure Statement to the movement on the Council's reserves, both usable and unusable.

The Expenditure and Funding Analysis Statement

The Expenditure & Funding Analysis is designed to show how annual expenditure is used and funded from resources, including Government Grants, Council Tax and Business Rates, by local authorities, in comparison with those resources consumed or earned by authorities in accordance with generally accepted accounting practises. It also shows how this expenditure is allocated for decision making purposes between the Council's Directorates and Service Heads. Income and expenditure, accounted for under generally accepted accounting practises is presented more fully in the Comprehensive Income and Expenditure Statement.

The Comprehensive Income & Expenditure Statement

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

The Balance Sheet

The Balance Sheet shows the value as at the Balance Sheet date of the assets and liabilities of the Council.

The Cash Flow Statement

The Cash Flow Statement reconciles the movement in cash and cash equivalents to the surplus or deficit on the Provision of Services within the Comprehensive Income & Expenditure Statement.

Notes to the Core Financial Statements (including pensions disclosures)

The Collection Fund

This account records all transactions relating to Council Tax and Business Rates.

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 ensure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Chief Finance Officer (Section 151 Officer).
- manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets.
- approve the Statement of Accounts.

Responsibilities of the Section 151 Officer:

The Section 151 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 Great Britain.

In preparing this Statement of Accounts, the Section 151 Officer has selected suitable accounting policies and then applied them consistently, made judgements and estimates that were reasonable and prudent and complied with the Code of Practice on Local Authority Accounting in the United Kingdom.

The Section 151 Officer also:

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

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

Signed:

Lydia Morrison
Section 151 Officer

Date:

STATEMENT OF RESPONSIBILITIES FOR THE STATEMENT OF ACCOUNTS

Certification of the Audited Statement of Accounts:

I confirm that the Statement of Accounts have been audited and, in accordance with the Accounts and Audit Regulations (amendment) 2015, I certify that the Audited Statement of Accounts give a true and fair view of the financial position of the Authority and its income and expenditure for the year ended 31 March 2019.

Signed:

Lydia Morrison
Section 151 Officer

Date:

Certificate of approval by the Council:

I confirm that the Audited Statement of Accounts were approved at the Governance and Audit Committee meeting of Havant Borough Council.

Signed:

Cllr A Briggs
Chairman, Governance, Audit and Finance Board

Date:

**INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF
HAVANT BOROUGH COUNCIL**

To be provided post audit.

MOVEMENT IN RESERVES STATEMENT

This statement shows the movement in the year on the different reserves held by the authority, analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation) and other 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 Balance for council tax setting purposes. The net increase / decrease before transfers to earmarked reserves line shows the statutory General Fund Balance before any discretionary transfers to or from earmarked reserves undertaken by the council.

Movements in 2018/19:

	General Fund Balance £000	Earmarked General Fund Reserves £000	Capital Receipts Reserve £000	Capital Grants and Other Contributions Unapplied £000	Total Usable Reserves £000	Unusable Reserves £000	Total Authority Reserves £000	Council Share of reserves of Associate £'000	Total Group Reserves £'000eserves
Balance at 31 March 2018 (*restated)	(7,303)	(2,426)	(1,437)	(8,687)	(19,853)	(23,948)	(43,800)	(51)	(43,851)
(Surplus) or deficit on the provision of services	(4,558)	-	-	-	(4,558)	-	(4,558)	-	(4,558)
Other Comprehensive Income and Expenditure	-	-	-	-	-	(9,417)	(9,417)	-	(9,417)
Total Comprehensive Income and Expenditure	(4,558)	-	-	-	(4,558)	(9,417)	(13,975)	-	(13,975)
Adjustment between group and Authority Accounts - purchase of goods & Services from Associate	-	-	-	-	-	-	-	(31)	(31)
Adjustments between accounting basis & funding basis under regulations (Note 9)	4,592	-	53	(4,196)	(449)	(447)	-	-	-
Net (Increase) /Decrease before Transfers to Earmarked Reserves	34	-	53	(4,196)	(4,109)	(9,864)	(13,975)	(31)	(14,006)
Transfers (to)/from Earmarked Reserves (Note 10)	(134)	134	-	-	-	-	-	-	-
(Increase)/Decrease in 2018/19	(100)	134	53	(4,196)	(4,109)	(9,864)	(13,975)	(31)	(14,006)
Balance at 31 March 2019	(7,403)	(2,292)	(1,384)	(12,883)	(23,962)	(33,814)	(57,776)	(82)	(57,858)

MOVEMENT IN RESERVES STATEMENT

2017-18 MIRS (*restated):

	General Fund Balance £000	Earmarked General Fund Reserves £000	Capital Receipts Reserve £000	Capital Grants and Other Contributions Unapplied £000	Total Usable Reserves £000	Unusable Reserves £000	Total Authority Reserves £000	Council Share of reserves of Associate £'000	Total Group Reserves £'000
Balance at 31 March 2017	(7,137)	(3,156)	(1,313)	(4,464)	(16,070)	(17,276)	(33,346)	(26)	(33,372)
(Surplus) or deficit on the provision of services	(318)	-	-	-	(318)	-	(318)	-	(318)
Other Comprehensive Income and Expenditure	-	-	-	-	-	(10,135)	(10,135)	-	(10,135)
Total Comprehensive Income and Expenditure	(318)	-	-	-	(318)	(10,135)	(10,453)	-	(10,453)
Adjustment between group and Authority Accounts - purchase of goods & Services from Associate	-	-	-	-	-	-	-	(25)	(25)
Adjustments between accounting basis & funding basis under regulations (Note 9)	884	-	(124)	(4,223)	(3,463)	3,463	-	-	-
Net (Increase) /Decrease before Transfers to Earmarked Reserves	564	-	(124)	(4,223)	(3,782)	(6,672)	(10,453)	(25)	(10,478)
Transfers (to)/from Earmarked Reserves (Note 10)	(730)	730	-	-	-	-	-	-	-
(Increase)/Decrease in 2017/18	(166)	730	(124)	(4,223)	(3,782)	(6,672)	(10,453)	(25)	(10,478)
Balance at 31 March 2018	(7,303)	(2,426)	(1,437)	(8,687)	(19,853)	(23,948)	(43,800)	(51)	(43,851)

*See note 7 for Prior Period Adjustments

EXPENDITURE & FUNDING ANALYSIS

The Expenditure & Funding Analysis is a note to the Financial Statements. However, it is presented here as it provides a link from the figures reported in the Narrative Statement to the Comprehensive Income & Expenditure Statement.

2017/18 (*restated)				2018/19		
Net Expenditure chargeable to the General Fund	Adjustment between the Funding and Accounting basis	Net Expenditure in the Comprehensive Income & Expenditure Statement		Net Expenditure chargeable to the General Fund	Adjustment between the Funding and Accounting basis	Net Expenditure in the Comprehensive Income & Expenditure Statement
£'000	£'000	£'000		£'000	£'000	£'000
			Operations Directorate			
214	656	(442)	Head of Neighbourhood Support	(83)	1,588	(1,671)
806	(331)	1,137	Head of Planning	680	1,511	(831)
2,403	(88)	2,491	Head of Customer Services	2,955	(74)	3,029
161	176	(15)	Head of Coastal Partnership	111	-	111
498	(68)	566	Head of Housing	387	306	81
-	-	-	Head of Regeneration (South)	132	-	132
4,082	345	3,737	Total Operations Directorate	4,182	3,331	851
			Strategy & Governance Directorate			
1,110	(275)	1,385	Head of Finance & Property	517	(1,279)	1,798
990	(78)	1,068	Head of Organisational Development	946	(40)	986
743	(664)	1,407	Head of Communications	224	(25)	249
355	(40)	395	Head of Legal	290	(42)	332
3,148	(337)	3,485	Head of Programmes Redesign & Quality	2,776	(159)	2,935
1,411	(40)	1,451	Executive and 5c's	1,142	(211)	1,353
7,757	(1,434)	9,191	Total Strategy & Governance Directorate	5,897	(1,756)	7,651

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EXPENDITURE & FUNDING ANALYSIS

2017/18 (*restated)			2018/19		
Net Expenditure chargeable to the General Fund	Adjustment between the Funding and Accounting basis	Net Expenditure in the Comprehensive Income & Expenditure Statement	Net Expenditure chargeable to the General Fund	Adjustment between the Funding and Accounting basis	Net Expenditure in the Comprehensive Income & Expenditure Statement
£'000	£'000	£'000	£'000	£'000	£'000

			Commercial Directorate			
110	16	94	Head of Commercial Development	162	(27)	189
-	(148)	148	Head of Community Engagement	714	(46)	761
3,682	(498)	4,180	Head of Environmental Services	4,399	(369)	4,768
129	(51)	180	Head of Development	(105)	88	(193)
1,310	(375)	1,685	Head of Estates (Building Maintenance and Facilities)	506	(21)	527
5,231	(1,056)	6,287	Total Commercial Directorate	5,676	(375)	6,052
17,070	(2,145)	19,215	Total Service Manager Spend	15,752	1,198	14,554
(16,504)	3,029	(19,533)	Other Operating Income & Expenditure	(15,718)	3,392	(19,111)
566	884	(318)	Total net expenditure	34	4,590	(4,557)

*See note 7 for Prior Period Adjustments

EXPENDITURE & FUNDING ANALYSIS

The Expenditure & Funding Analysis is designed to show how annual expenditure is used and funded from resources, including Government Grants, Council Tax and Business Rates, by local authorities, in comparison with those resources consumed or earned by authorities in accordance with generally accepted accounting practises. It also shows how this expenditure is allocated for decision making purposes between the Council's Directorates and Service Heads. Income and expenditure, accounted for under generally accepted accounting practises is presented more fully in the Comprehensive Income and Expenditure Statement.

The starting point for the production of the Expenditure and Funding Analysis is the internal Management reporting on outturn, as presented to the Council's management team and Cabinet. Fuller disclosure of this report, including explanations of variances to budget, is provided in the Narrative Statement at the start of this document. The table below reconciles the Net expenditure to the reported surplus and the balance on the General Fund. A reconciliation of adjustments between the internally reported outturn and the statutory net expenditure shown in the Comprehensive Income and Expenditure Statement is provided on page 24.

Reconciliation of Net expenditure chargeable to the General Fund to the reported surplus for 2018/19:

2017/18 £'000		2018/19 £'000
566	Net Expenditure chargeable to the General Fund	34
(730)	Movement in Usable & Unusable reserves	(134)
(166)	Closing General Fund balance	(100)

Reconciliation of the reported surplus / deficit (-) to the General Fund balance

2017/18 £'000		2018/19 £'000
7,137	Opening General Fund balance	7,303
166	Surplus reported to Management	100
7,303	Surplus / Deficit (-) reported to Management	7,403

COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

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

2017/18 (*restated)				2018/19				
Gross Expenditure £'000	Gross Income £'000	Net Expenditure £'000	Group Net Expenditure £'000		Gross Expenditure £'000	Gross Income £'000	Net Expenditure £'000	Group Net Expenditure £'000
				Operations Directorate				
3,259	(3,701)	(442)	(442)	Head of Neighbourhood Support	3,789	(5,460)	(1,671)	(1,671)
2,237	(1,100)	1,137	1,137	Head of Planning	2,332	(3,163)	(831)	(831)
35,301	(32,810)	2,491	2,491	Head of Customer Services	36,061	(33,032)	3,029	3,029
1,080	(1,095)	(15)	(15)	Head of Coastal Partnership	827	(716)	111	111
779	(213)	566	566	Head of Housing	1,006	(925)	81	81
-	-	-	-	Head of Regeneration (South)	183	(51)	132	132
42,656	(38,919)	3,737	3,737	Total Operations Directorate	44,198	(43,347)	851	851
			-	Strategy & Governance Directorate				
1,394	(9)	1,385	1,385	Head of Finance & Property	2,078	(282)	1,796	1,796
1,098	(30)	1,068	1,068	Head of Organisational Development	1,064	(78)	986	986
1,685	(278)	1,407	1,407	Head of Communications	259	(10)	249	249
451	(56)	395	395	Head of Legal	470	(138)	332	332
3,740	(255)	3,485	3,485	Head of Programmes Redesign & Quality	3,439	(504)	2,935	2,935
1,636	(185)	1,451	1,451	Executive and 5 Councils	2,314	(961)	1,353	1,353
10,004	(813)	9,191	9,191	Total Strategy & Governance Directorate	9,624	(1,973)	7,651	7,651

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COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

2017/18 (*restated)					2018/19			
Gross Expenditure £'000	Gross Income £'000	Net Expenditure £'000	Group Net Expenditure £'000		Gross Expenditure £'000	Gross Income £'000	Net Expenditure £'000	Group Net Expenditure £'000
				Commercial Directorate				
97	(3)	94	94	Head of Commercial Development	280	(91)	189	189
148	-	148	148	Head of Community Engagement	1,025	(264)	761	761
4,742	(562)	4,180	4,180	Head of Environmental Services	6,554	(1,786)	4,769	4,769
316	(136)	180	180	Head of Development	342	(535)	(193)	(193)
2,481	(796)	1,685	1,685	Head of Estates (Building Maintenance and Facilities)	1,011	(484)	527	527
7,784	(1,497)	6,287	6,287	Total Commercial Directorate	9,212	(3,160)	6,149	6,149
60,444	(41,229)	19,215	19,215	Total Cost of Services	63,033	(48,480)	14,554	14,554
-	-	-	-	Other Operating Income & Expenditure (Note 11)	173	-	173	173
1,381	(2,444)	(1,063)	(1,063)	Financing & Investment Income & Expenditure (Note 12)	1,470	(4,898)	(3,428)	(3,428)
-	(18,470)	(18,470)	(18,470)	Taxation and Non-Specific Grant Income (Note 13)	-	(15,857)	(15,857)	(15,857)
-	-	-	(33)	Share of Surplus (-) / Deficit of services by Associate	-	-	-	(38)
-	-	-	8	Tax expenses of Associate	-	-	-	7
61,825	(62,143)	(318)	(343)	Surplus (-) / Deficit on Provision of Services	64,677	(69,236)	(4,558)	(4,589)
		(11,359)	(11,359)	Surplus (-) / Deficit on revaluation of Property, Plant and Equipment Assets			(3,636)	(3,636)
		210	210	Remeasurement of the net defined benefit Liability/Asset			(5,780)	(5,780)
		(11,149)	(11,149)	Other Comprehensive Income & Expenditure			(9,416)	(9,416)
		(11,467)	(11,492)	Total Comprehensive Income & Expenditure			(13,974)	(14,005)

*See note 7 for Prior Period Adjustments

BALANCE SHEET

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

Authority 31 March 2018 (*restated) £'000	Group 31 March 2018 (*restated) £'000		Authority 31 March 2019 £'000	Group 31 March 2019 £'000
62,159	62,159	Property, Plant and Equipment (Note 14)	64,717	64,717
22,476	22,476	Investment Property (Note 15)	26,055	26,055
226	226	Intangible Fixed Assets (Note 16)	4	4
-	51	Investment in Associate (Note 33)	-	82
472	472	Long Term Debtors (Notes 17 and 19)	351	351
85,333	85,333	Total Long Term Assets	91,126	91,208
7,845	7,845	Short Term Debtors (Note 19)	11,503	11,503
18,455	18,455	Cash & Cash Equivalents (Note 20)	21,921	21,921
26,300	26,300	Total Current Assets	33,424	33,424
(846)	(846)	Bank Overdraft (Note 20)	(106)	(106)
(90)	(90)	Short Term Borrowing (Note 17)	(93)	(93)
(8,737)	(8,737)	Short Term Creditors (Note 21)	(12,182)	(12,182)
(66)	(66)	Short Term Provisions (Note 22)	(63)	(63)
(9,739)	(9,739)	Total Current Liabilities	(12,444)	(12,444)
(248)	(248)	Long Term Finance Lease (Note 21 and 35)	(248)	(248)
(730)	(730)	Long Term Provisions (Note 22)	(516)	(516)
(3,538)	(3,538)	Long Term Borrowing (Note 17)	(3,350)	(3,350)
(50,068)	(50,068)	Liability related to defined benefit pension scheme (Note 38)	(47,040)	(47,040)
(3,509)	(3,509)	Capital Grants and Contributions Received in Advance (Note 31)	(3,175)	(3,175)
(58,093)	(58,093)	Total Long Term Liabilities	(54,329)	(54,329)
43,800	43,851	NET ASSETS	57,776	57,858
19,853	19,853	Usable Reserves (Note 23)	23,963	23,963
23,947	23,947	Unusable Financial Reserves (Note 24)	33,813	33,813
-	51	Share of Reserves of Associate (Note 33)	-	82
43,800	43,851	TOTAL RESERVES	57,776	57,858

CASHFLOW

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

		2017/18 (*restated)	2018/19
	Note	£'000	£'000
Net surplus or (deficit) on the provision of services		318	4,559
Adjustments to net surplus or deficit on the provision of services for non-cash movements	25	2,546	442
Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities	25	(5,155)	(1,289)
Net cash flows from Operating Activities		<u>(2,291)</u>	<u>3,712</u>
Investing Activities	26	3,654	588
Financing Activities	27	(84)	(93)
Net increase or (decrease) in cash and cash equivalents		<u>1,279</u>	<u>4,207</u>
Cash & cash equivalents at the beginning of the reporting period	20	<u>16,330</u>	<u>17,609</u>
Cash & cash equivalents at the end of the reporting period	20	<u><u>17,609</u></u>	<u><u>21,816</u></u>

*See note 7 for Prior Period Adjustments

1. Accounting Policies

i. General Principles

The Statement of Accounts summarises the Authority's transactions for the 2018/19 financial year and its position at the year-end of 31 March 2019. The Authority is required to prepare an annual Statement of Accounts by the Accounts and Audit Regulations 2003, as amended in 2015, which require it to be prepared in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 and the Service Reporting Code of Practice 2018/19, supported by International Financial Reporting Standards (IFRS) and statutory guidance issued under section 12 of the 2003 Act.

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

ii. Accruals of Income and Expenditure

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

- Revenue from the sale of goods is recognised when the Authority 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 Authority.
- Revenue from the provision of services is recognised when the Authority 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 Authority.
- 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 based on 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 written down and a charge made to revenue for the income that might not be collected.

iii. Cash and Cash Equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are investments that mature in three months from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

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

iv. Prior Period Adjustments, Changes in Accounting Policies and Estimates and Errors

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

NOTES TO THE CORE FINANCIAL STATEMENTS

Changes in accounting policies are only made when required by proper accounting practices or the change provides more reliable or relevant information about the effect of transactions, other events and conditions on the Authority's financial position or financial performance. Where a change is made, it is applied retrospectively (unless stated otherwise) by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied. Material errors discovered in prior period figures are corrected retrospectively by amending opening balances and comparative amounts for the prior period.

v. Charges to Revenue for Non-Current Assets

Services and support services are debited 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 is no accumulated gain in the Revaluation Reserve against which the losses can be written off
- amortisation of intangible fixed assets attributable to the service.

The Authority is not required to raise council tax to fund depreciation, revaluation and impairment losses or amortisations. 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 authority in accordance with statutory guidance (England and Wales). Depreciation, revaluation and impairment losses and amortisations are therefore replaced by the contribution in the General Fund Balance [MRP], by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

vi. 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 wages and salaries, paid annual leave and paid sick leave, bonuses and non-monetary benefits for current employees and are recognised as an expense for services in the year in which employees render service to the Authority. An accrual is estimated for the cost of holiday entitlements earned by employees but not taken before the year-end which employees can carry forward into the next financial year. The accrual is charged to Surplus or Deficit on the Provision of Services, but then reversed out through the Movement in Reserves Statement so that holiday benefits are charged to revenue in the financial year in which the holiday absence occurs.

Termination Benefits

Termination benefits are amounts payable as a result of a decision by the Authority to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy and are charged on an accruals basis to the relevant service line in the Comprehensive Income and Expenditure Statement when the Authority is demonstrably committed to the termination of the employment of an officer or group of officers or making an offer to encourage voluntary redundancy. Where termination benefits involve the enhancement of pensions, statutory provisions require the General Fund balance to be charged with the amount payable by the Authority to the pension fund in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, appropriations are required to and from the Pensions Reserve to remove the notional debits and credits for pension enhancement termination 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.

Post-Employment Benefits

Employees of the Authority can be members of the Local Government Pension Scheme, administered by Hampshire County Council. The scheme provides defined benefits to members (retirement lump sums and pensions), earned as employees work for the authority.

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

Liabilities are discounted to their value at current prices using a discount rate based on the indicative rate of return on AA corporate bonds.

The assets of the pension fund attributable to the Authority are included in the Balance Sheet at their fair value:

- quoted securities – current bid price
- unquoted securities – professional estimate
- unitised securities – current bid price
- property – market value

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

- 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 or decrease 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
- interest cost – the expected increase in the present value of liabilities during the year as they move one year closer to being paid – debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement
- expected return on assets – the annual investment return on the fund assets attributable to the Authority, 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
- gains or losses on settlements and curtailments – the result of actions to relieve the Authority of liabilities or events that reduce the expected future service or accrual of benefits of employees – debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non-Distributed Costs
- actuarial gains and losses – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – debited to the Pensions Reserve
- contributions paid to the Hampshire County Council 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 balance to be charged with the amount payable by the Authority to the pension fund in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, this means that there are appropriations to and from the Pensions Reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund and any 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 Authority also has restricted powers to make discretionary awards of retirement benefits in the event of early retirements. Any liabilities estimated to arise as a result of an award to any member of staff are accrued in the year of the decision to make the award and accounted for using the same policies as are applied to the Local Government Pension Scheme.

vii. Events after the Balance Sheet Date

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

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

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

viii. Financial Instruments

Financial Instruments.

A financial instrument is a contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. Non-exchange transactions, such as those relating to taxes, benefits and government grants, do not give rise to financial instruments.

Financial Liabilities

A financial liability is an obligation to transfer economic benefits controlled by the Council and can be represented by a contractual obligation to deliver cash or financial assets or an obligation to exchange financial assets and liabilities with another entity that is potentially unfavourable to the Council. Financial liabilities are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument.

Financial Assets

A financial asset is a right to future economic benefits controlled by the Council that is represented by cash, equity instruments or a contractual right to receive cash or another financial asset or a right to exchange financial assets and liabilities with another entity that is potentially favourable to the Council.

Offsetting Financial Assets and Liabilities

Financial assets and liabilities are set off against each other where the Council has a legally enforceable right to set off and it intends to settle on a net basis, or to realise the asset and settle the liability simultaneously.

NOTES TO THE CORE FINANCIAL STATEMENTS

Classification and Measurement of Financial Assets

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

There are three main classes of financial assets measured at:

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

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

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

Expected Credit Loss Model

Expected credit losses for all of financial assets held at amortised cost are recognised either on a 12-month or lifetime basis. The expected credit loss model also applies to lease receivables, and contract assets and trade receivables with a significant financing component.

Impairment losses are calculated to reflect the expectation that the future cash flows might not take place because the borrower could default on their obligations. Credit risk plays a crucial part in assessing losses. Where risk has increased significantly since an instrument was initially recognised, losses are assessed on a lifetime basis. Where risk has not increased significantly or remains low, losses are assessed on the basis of 12-month expected losses.

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

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

Fair Values

Fair values are shown in note 17, split by their level in the fair value hierarchy:

- Level 1 – fair value is only derived from quoted prices in active markets for identical assets or liabilities
 - For the Council's investments in externally managed pooled funds, fund values published by the fund manager have been used as these represent the prices in the principal market within which the Council would normally enter into a transaction to sell the asset.
 - For the Stable or Low Volatility Net Asset Value money market funds, the valuation used assumes that, for each £1 for every of principal invested, the fund will return £1 of principal on withdrawal by the Council, plus interest.

NOTES TO THE CORE FINANCIAL STATEMENTS

- Level 2 – fair value is calculated from inputs other than quoted prices that are observable for the asset or liability, e.g. interest rates or yields for similar instruments.
- Level 3 – fair value is determined using unobservable inputs, e.g. non-market data such as cash flow forecasts or estimated creditworthiness

Financial instruments classified at amortised cost are carried in the Balance Sheet at amortised cost. Their fair values have been estimated by calculating the net present value of the remaining contractual cash flows at 31st March 2019, using the following methods and assumptions:

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

ix. Government Grants and Contributions

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

- the Authority 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.

Non-ring-fenced government grants are general grants allocated by central government directly to local authorities as additional revenue funding. These grants are credited to Taxation and Non-Specific Grant Income in the Comprehensive Income and Expenditure Statement.

The authority has elected to charge a Community Infrastructure Levy (CIL). The levy is 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 infrastructure projects to support the development of the area.

NOTES TO THE CORE FINANCIAL STATEMENTS

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 small proportion of the charges are being used to fund revenue expenditure.

x. Heritage Assets

Heritage assets are defined as those assets that are held specifically to increase the knowledge, understanding and appreciation of the Authority's history and local area. Heritage Assets are recognised and measured (including the treatment of revaluation gains and losses) in accordance with the Authority's accounting policies on property, plant and equipment. However, some of the measurement rules may be relaxed in relation to heritage assets, where no reliable market value is available. The Authority currently has no asset meeting the definition of a heritage asset.

xi. Intangible Assets

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

Internally generated assets are capitalised where it is demonstrable that the project is technically feasible and is intended to be completed (with adequate resources being available) and the Authority will be able to generate future economic benefits or deliver service potential by being able to sell or use the asset. Expenditure is capitalised where it can be measured reliably as attributable to the asset and is restricted to that incurred during the development phase (research expenditure cannot be capitalised). Expenditure on the development of websites is not capitalised if the website is solely or primarily intended to promote or advertise the Authority's goods or services.

Intangible assets are measured initially at cost. Amounts are only revalued where the fair value of the assets held by the Authority can be determined by reference to an active market. In practice, no intangible asset held by the Authority meets this criterion, and they are therefore carried at amortised cost. The depreciable amount of an intangible asset is amortised over its useful life to the relevant service lines in the Comprehensive Income and Expenditure Statement. An asset is tested for impairment whenever there is an indication that the asset might be impaired – any losses recognised are posted to the relevant service lines in the Comprehensive Income and Expenditure Statement. Any gain or loss arising on the disposal or abandonment of an intangible asset is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement.

Where expenditure on intangible assets qualifies as capital expenditure for statutory purposes, amortisation, impairment losses and disposal gains and losses are not permitted 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 the Capital Receipts Reserve.

xii. Inventories

Stocks and stores held in the Council's depot and Tourist Information Centre stock at the year-end are included in the balance sheet at the latest purchase price. Inventories are included in the Balance Sheet at the lower of cost and net realisable value.

xiii. Investment Property

Investment properties are those that are used 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 production of goods or is held for sale.

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

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

xiv. Interests in Companies and Other Entities

Local authorities are required to consider all their interests and to prepare a full set of group financial statements where they have material interests in subsidiaries, associates or joint ventures. To assess whether the Council has interests relevant to group accounts, consideration has been given to involvement with companies, partnerships, voluntary organisations and other public bodies to determine whether:

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

Consideration has been given to the relationship with all potential entities and the Council's relationship with Norse South East has been assessed as an Associate. Fuller disclosures have been made in the interests in other entities note to the Core Financial Statements

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

xv. Leases

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

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

Arrangements that do not have the legal status of a lease but convey a right to use an asset in return for payment are accounted for under this policy where fulfilment of the arrangement is dependent on the use of specific assets.

The Authority as Lessee

Finance Leases

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

Lease payments are apportioned between:

- a charge for the acquisition of the interest in the property, plant or equipment – applied to write down the lease liability, and
- a finance charge (debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

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

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

Operating Leases

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

The Authority as Lessor

Finance Leases

Where the Authority grants a finance lease over a property or an item of plant or equipment, the relevant asset is written out of the Balance Sheet as a disposal. At the commencement of the lease, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment or Assets Held for Sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. A gain, representing the Authority's net investment in the lease, is credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal), matched by a lease (long-term debtor) asset in the Balance Sheet.

Lease rentals receivable are apportioned between:

- a charge for the acquisition of the interest in the property – applied to write down the lease debtor (together with any premiums received), and
- finance income (credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

The gain credited to the Comprehensive Income and Expenditure Statement on disposal is not permitted by statute to increase the General Fund Balance and is required to be treated as a capital receipt. Where a premium has been received, this is posted out of the General Fund Balance to the Capital Receipts Reserve in the Movement in Reserves Statement. Where the amount due in relation to the lease asset is to be settled by the payment of rentals in future financial years, this is posted out of the General Fund Balance to the Deferred Capital Receipts Reserve in the Movement in Reserves Statement. When the future rentals are received, the element for the capital receipt for the disposal of the asset is used to write down the lease debtor. At this point, the deferred capital receipts are transferred to the Capital Receipts Reserve.

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 therefore appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

Operating Leases

Where the Authority grants an operating lease over a property or an item of plant or equipment, the asset is retained in the Balance Sheet. Rental income is credited to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Credits are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments (e.g. there is a premium paid at the commencement of the lease). Initial direct costs incurred in negotiating and arranging the lease are added to the carrying amount of the relevant asset and charged as an expense over the lease term on the same basis as rental income.

xvi. Overheads and Support Services

The costs of overheads and support services are reported under the relevant Service Head responsibility and not charged to front line services for the purposes of the Statutory Accounts.

Overhead apportionment is applied for statutory government reporting and where this is the case the total absorption costing principle is used – the full cost of overheads and support services is shared between users in proportion to the benefits received, with the exception of:

Non-Distributed Costs – the cost of discretionary benefits awarded to employees retiring early and impairment losses chargeable on Assets Held for Sale. These two cost categories are accounted for as separate headings in the Comprehensive Income and Expenditure Statement, as part of Cost of Services.

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

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 Authority does not capitalise expenditure below a de minimis of £15,000, or borrowing costs incurred whilst assets are under construction.

The cost of assets acquired other than by purchase is deemed to be its fair value, unless the acquisition does not have commercial substance (i.e. it will not lead to a variation in the cash flows of the Authority). 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 Authority.

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

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

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

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

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

Assets included in the Balance Sheet at fair value are revalued sufficiently regularly to ensure that their carrying amount is not materially different from their fair value at the year-end, but as a minimum, every five years. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. Where decreases in value are identified, they are accounted for by:

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

NOTES TO THE CORE FINANCIAL STATEMENTS

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 by:

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

Where an impairment loss is reversed subsequently, 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 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 – straight line allocation over the assessed useful life of the asset concerned (life between 3 and 20 years) as advised by a suitably qualified officer
- infrastructure – straight-line allocation over assessed useful life of the type of asset (life between 10 and 50 years) as advised by a suitably qualified officer

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

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

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 previously losses recognised in the Surplus or Deficit on Provision of Services. Depreciation is not charged on Assets Held for Sale.

If assets no longer meet the criteria to be classified as Assets Held for Sale, they are reclassified back to non-current assets and valued at the lower of their carrying amount before they were classified as held for sale; adjusted for depreciation, amortisation or revaluations that would have been recognised had they not been classified as Held for Sale, and their recoverable amount at the date of the decision not to sell.

Assets that are to be abandoned or scrapped are not reclassified as Assets Held for Sale.

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

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

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

xviii. Provisions, Contingent Liabilities and Contingent Assets

Provisions

Provisions are made where an event has taken place that gives the Authority 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. For instance, the Authority may be involved in a court case that could eventually result in the making of a settlement or the payment of compensation.

Provisions are charged as an expense to the appropriate service line in the Comprehensive Income and Expenditure Statement in the year that the authority 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, considering relevant risks and uncertainties.

When payments are eventually made, they are charged to the provision carried in the Balance Sheet. Estimated settlements are reviewed at the end of each financial year – where it becomes less than probable that a transfer of economic benefits will now be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant service.

NOTES TO THE CORE FINANCIAL STATEMENTS

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

Contingent Liabilities

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

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

Contingent Assets

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

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

xix. Reserves

The Authority sets aside specific amounts as reserves for future policy purposes or to cover contingencies. Reserves are created by appropriating amounts out of the General Fund Balance in the Movement in Reserves Statement. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service in that year to score against the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement. The reserve is then appropriated back into the General Fund Balance in the Movement in Reserves Statement so that there is no net charge against council tax for the expenditure. Certain reserves are kept to manage the accounting processes for non-current assets, financial instruments, retirement and employee benefits and do not represent usable resources for the Authority – these reserves are explained in Note 23.

xx. Revenue Expenditure Funded from Capital under Statute

Expenditure incurred during the year that may be capitalised under statutory provisions but that does not result in the creation of a non-current asset has been charged as expenditure to the relevant service in the Comprehensive Income and Expenditure Statement in the year. Where the Authority 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.

xxi. 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 receivable is excluded from income.

xxii. Exceptional Items

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

xxiii. Council Tax and Non-Domestic Rates (England)

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

2. Accounting Standards that have been issued but have not yet been adopted

This note sets out information regarding the impact of an accounting change that will be required by any new accounting standards that have been issued but not yet adopted by the CIPFA Code of Practice

The changes introduced by the 2019/20 Code that will be relevant to the financial statements of the Council are as follows.

- IFRS 16 Leases will require local authorities that are lessees to recognise most leases on their balance sheets as right-of-use assets with corresponding lease liabilities (there is exemption for low-value and short-term leases). CIPFA/LASAAC have deferred implementation of IFRS16 for local government to 1 April 2021.
- IAS 40 Investment Property: Transfers of Investment Property provides further explanation of the instances in which a property can be reclassified as investment property. This will have no impact on the Council as it already complies.
- IFRIC 22 Foreign Currency Transactions and Advance Consideration clarifies the treatment of payments in a foreign currency made in advance of obtaining or delivering services or goods. The Council does not have any material transactions within the scope of the amendment.
- IFRIC 23 Uncertainty over Income Tax Treatments provides additional guidance on income tax treatment where there is uncertainty. This will have no impact on the accounts.
- IFRS 9 Financial instruments: prepayment features with negative compensation amends IFRS9 to make clear that amortised cost should be used where prepayments are substantially lower than the unpaid principal and interest. The Council has no loans to whom this will apply.

3. Critical Judgements in applying accounting policies

In applying the accounting policies set out in Note 1, the Authority 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 – Consultation is underway on changes to the Business Rates Retention scheme, which will ultimately replace existing government grants, creating uncertainty over future levels of funding. However, the Authority has determined that this uncertainty is not sufficient to provide an indication that the assets of the Authority might be impaired as a result of a need to close facilities and reduce levels of service provision.

Asset classifications – the Council has made judgements on whether assets are classified as Investment Property 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. The classification determines the valuation method to be used.

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 “in the round” and a decision has been made. The accounting treatment for operating and finance leases is significantly different (see accounting policy on leases) and could have a significant effect on the accounts.

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).

Providing for potential liabilities – the Council has made judgements about the likelihood of pending liabilities and whether a provision should be made or whether there is a contingent liability. The judgements are based on the degree of certainty around the results of pending legal actions.

Production of group accounts – the Council has an interest in another entity, Portchester Crematorium Joint Committee, which manages the operations of Portchester Crematorium. The accounts of this entity have not been consolidated into the financial statements of the Council since grouping the accounts would not materially change the reported figures in the Statement of Accounts.

NOTES TO THE CORE FINANCIAL STATEMENTS

4. Assumptions made about the future and other major sources of estimation uncertainty

The Statement of Accounts contains estimated figures that are based on assumptions made by the Authority about the future or regarding other uncertainties. Estimates are made considering historical experience, current trends and other relevant factors. However, due to this uncertainty, there is a risk that actual results could vary from the assumptions made. The items in the authority's balance sheet at 31 March 2019 for which there is a significant risk of material adjustment in the forthcoming year are as follows.

Item	Uncertainties	Effect if results differ from assumptions
Pension Liability	Estimation of the net liability to pay pensions depends on several 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 from pension fund assets. A firm of actuaries is engaged by the pension fund administrator to provide expert advice about the assumptions to be applied.	Further information on the impact of changes to assumptions can be found at note 37.
Property, Plant and Equipment	When calculating the fair value of assets, assumptions are made around useful lives, level of repairs, and the impact of the current economic climate. Changes in these assumptions may result in a material change to the depreciation charges applied. In the current economic climate, it is unlikely that the level of repairs and maintenance can be sustained and this would influence depreciation charges.	If the useful life of assets is reduced, depreciation increases and the carrying amount of the asset falls.
Provisions	At 31 March 2019, the authority had a balance of general fund sundry debtors of £3.65m (2017/18 £0.94m), and of overpaid housing benefits of £2.84m (£2.47m in 2017/18). The Authority has made allowances for doubtful debt on a sliding scale dependent on the age of debt.	If collection rates were to deteriorate or improve, an adjustment would be required to the bad debt provision. An increase or decrease to the bad debt provision of 5% equates to £0.14m (£0.11m 2017/18).
Business Rates appeal provision	The introduction of the Business rates retention scheme in April 2013 means that the Council has assumed some of the liability for refunding business ratepayers who successfully appeal against the rateable value of their properties. The estimate is based on the latest list of outstanding rating list proposals provided by the Valuation Agency, and considers changes to comparable properties, historic trends and the likelihood that a number of appeals will be unsuccessful.	The Council has provided £1.18m for appeals within the Collection Fund (2017/18 £1.48m), of which the Authority's share is £0.49m (2017/18 £0.59m). A 5% change in provision would require an adjustment of £27,500 (2017/18 £29,600).

NOTES TO THE CORE FINANCIAL STATEMENTS

5. Exceptional items

There are no exceptional items in 2018/19.

6. Material Items of Income and Expense

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

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

7. Prior Period Adjustments

In closing the accounts for 2018/19 the Council discovered that the Property, Plant and Equipment assets had not had revised valuations for the financial years 2017/18 and 2018/19 processed. These all related to Other Land and Buildings assets. All valuations have now been processed in 2018/19 but, as a result, the prior year comparator figures, in relation to PPE and related notes have had to be amended by £5.715m. New controls have been put in place to ensure that this error does not occur in the future. The prior period adjustment affects all the primary statements (Balance Sheet, CIES, MIRS, Cashflow, EFA and various disclosure notes). The tables below show how each part of the statements have been affected with the balance prior to the adjustment, balance post adjustment and the value of the adjustment.

Effect on Balance Sheet 2017/18

Heading	Originally Stated 2017/18 £'000	Restated 2017/18 £'000	Amount of Restatement £'000
Property, Plant and Equipment	56,445	62,159	5,715
Net Assets	38,086	43,801	5,715
Unusable Financial Reserves	18,233	23,947	5,715
Total Reserves	38,086	43,801	5,715

NOTES TO THE CORE FINANCIAL STATEMENTS

Effect on Comprehensive Income and Expenditure statement 2017/18

	Originally Stated 2017/18 Gross Expenditure £'000	Restated 2017/18 Gross Expenditure £'000	Amount of Restatement Gross Expenditure £'000
Commercial Directorate			
Head of Community Engagement	-	148	148
Head of Environmental Services	4,470	4,742	272
Head of Estates	2,245	2,481	236
Total Commercial Directorate	7,128	7,784	656
Total Cost of Services	59,788	60,444	656
Surplus (-)/ Deficit on Provision of Services	61,169	61,825	656
Surplus (-)/ Deficit on revaluation of Property, Plant & Equipment	(7,564)	(10,345)	(2,780)
Other Comprehensive Income and Expenditure	(7,354)	(10,135)	(2,780)
Total Comprehensive Income and Expenditure	(8,328)	(10,453)	(2,125)

Effect on Movements in Reserves Statement 2017/18

	Originally Stated 2017/18		Restated 2017/18		Amount of Restatement	
	General Fund £'000	Unusable Reserves £'000	General Fund £'000	Unusable Reserves £'000	General Fund £'000	Unusable Reserves £'000
Surplus or (deficit) on the provision of services	(974)		(318)		656	
Other Comprehensive Income and Expenditure		(7,354)		(10,135)		(2,780)
Total Comprehensive Income and Expenditure	(974)	(7,354)	(318)	(10,135)	656	(2,780)
Adjustments between accounting basis and funding basis under regulations	1,540	2,807	884	3,463	(656)	656
Net Increase/(Decrease) before Transfers to Earmarked Reserves	566	(4,547)	566	(6,672)	-	(2,125)

NOTES TO THE CORE FINANCIAL STATEMENTS

Effect on Expenditure and Funding Analysis 2017/18

Adjustment between the funding and accounting basis	Originally Stated 2017/18	Restated 2017/18	Amount of Restatement
	£'000	£'000	£'000
Commercial Directorate			
Head of Community Engagement	16	(132)	(148)
Head of Environmental Services	(226)	(498)	(272)
Head of Estates	(139)	(375)	(236)
Total Adjustments within Commercial Directorate	(349)	(1,005)	(656)

Effect on Cashflow Statement 2017/18	Originally Stated 2017/18	Restated 2017/18	Amount of Restatement
	£'000	£'000	£'000
Net surplus or (deficit) on the provision of services	974	318	(656)
Adjustments to net surplus or deficit on the provision of services for non-cash movements	1,890	2,546	656

Adjustments between the accounting basis and funding basis under regulations

	Originally Stated 2017/18	Restated 2017/18	Amount of Restatement
	£'000	General Fund £'000	£'000
Reversal of entries included in the Surplus or Deficit on the Provision of Services in relation to capital expenditure	2,428	1,772	(656)

NOTES TO THE CORE FINANCIAL STATEMENTS

Property, Plant & Equipment

	Originally Stated 2017/18 Land & Buildings £'000	Restated 2017/18 Land & Buildings £'000	Amount of Restatement Land & Buildings £'000
Cost or Valuation			
Revaluation increases/(decreases) recognised in the Revaluation Reserve	5,664	6,151	487
As At 31 March 2018	52,507	53,321	4,076
Accumulated Depreciation and Impairment			
Depreciation written out to the Revaluation Reserve	1,899	3,540	1,641
As At 31 March 2018	(1,560)	80	1,640
Net Book Value as at 31 March 2018	50,948	56,663	5,715

Unusable Reserves

	Originally Stated 2017/18 £'000	Restated 2017/18 £'000	Amount of Restatement £'000
Revaluation Reserve	28,804	35,148	6,344
Capital Adjustment Account	40,351	39,722	(629)
Revaluation Reserve			
Upward revaluation of assets	8,271	16,379	8,108
Downward revaluation of assets and impairment losses not charged to the Surplus/Deficit on the Provision of Services	(707)	(6,060)	(5,353)
Capital Adjustment Account			
- Charges for depreciation and impairment of non-current assets	(1,167)	(1,824)	(657)

NOTES TO THE CORE FINANCIAL STATEMENTS

Net Cashflow from operating activities

	Originally Stated 2017/18 £'000	Restated 2017/18 £'000	Amount of Restatement £'000
Impairment and downward valuations	1,216	1,872	656

NOTES TO THE CORE FINANCIAL STATEMENTS

8. Notes to the Expenditure and funding analysis

The Expenditure and Funding Analysis provides financial information on each of the Council's reporting segments. However, adjustments are made to the reported position to comply with statutory accounting requirements. A reconciliation of the adjustments made is provided below.

2017/18 (*restated)		2018/19			
Total Adjustments		Adjustments for Capital Purposes	Net Change for the Pensions Adjustments	Other Differences	Total Adjustments
£'000		£'000	£'000	£'000	£'000
	Operations Directorate				
656	Head of Neighbourhood Support	1,754	(166)	-	1,588
(331)	Head of Planning	1,732	(221)	-	1,511
(88)	Head of Customer Services	-	(74)	-	(74)
176	Head of Coastal Partnership	-	-	-	-
(68)	Head of Housing	-	(63)	369	306
-	Head of Regeneration (South)	-	-	-	-
345	Total Operations Directorate	3,486	(524)	369	3,331
	Strategy & Governance Directorate				
(275)	Head of Finance & Property	-	(1,279)	-	(1,279)
(78)	Head of Organisational Development	-	(40)	-	(40)
(664)	Head of Communications	-	(25)	-	(25)
(40)	Head of Legal	-	(42)	-	(42)
(337)	Head of Programmes Redesign & Quality	(21)	(138)	-	(159)
(40)	Executive and 5c's	(96)	(115)	-	(211)
(1,434)	Total Strategy & Governance Directorate	(117)	(1,639)	-	(1,756)

This table is continued on the next page

NOTES TO THE CORE FINANCIAL STATEMENTS

2017/18 (*restated)		2018/19			
Total Adjustments		Adjustments for Capital Purposes	Net Change for the Pensions Adjustments	Other Differences	Total Adjustments
	Commercial Directorate				
16	Head of Commercial Development	-	(27)	-	(27)
(148)	Head of Community Engagement	-	(46)	-	(46)
(498)	Head of Environmental Services	(369)	-	-	(369)
(51)	Head of Development	144	(56)	-	88
(375)	Head of Estates (Building Maintenance and Facilities)	-	(21)	-	(21)
(1,056)	Total Commercial Directorate	(225)	(150)	-	(375)
(2,145)	Total Service Manager Spend	3,144	(2,313)	369	1,200
3,029	Other Operating Income & Expenditure	4,000	(486)	(121)	3,392
884	Total net expenditure	7,144	(2,799)	248	4,592

*See note 7 for Prior Period Adjustments

NOTES TO THE CORE FINANCIAL STATEMENTS

Adjustments for Capital Purposes

- For Services this column adds in depreciation, impairment and revaluations gains and losses.
- Other operating expenditure – adjusts for capital disposals with a transfer of income on disposal of assets and the amounts written off for those assets.
- Financing and investment income and expenditure – the statutory charges for capital financing i.e. Minimum Revenue Provision and other revenue contributions are deducted from other income and expenditure as these are not chargeable under generally accepted accounting practices.
- Taxation and non-specific grant income and expenditure – capital grants are adjusted for income not chargeable under generally accepted accounting practices. Revenue grants are adjusted from those receivable in the year to those receivable without conditions or for which conditions were satisfied throughout the year. The Taxation and Non-Specific Grant Income and Expenditure line is credited with capital grants receivable in the year without conditions or for which conditions were satisfied in the year

Net change for the Pensions Adjustments

- Net change for the removal of pension contributions and the addition of IAS 19 Employee Benefits pension related expenditure and income:
- For services this represents the removal of the employer pension contributions made by the authority as allowed by statute and the replacement with current service costs and past service costs.
- For Financing and investment income and expenditure –the net interest on the defined benefit liability is charged to the CIES.

Other Differences

- Other differences between amounts debited/credited to the Comprehensive Income and Expenditure Statement and amounts payable/receivable to be recognised under statute:
- For services this represents the change in the accumulated absences reserve attributable to each service.
- For Financing and investment income and expenditure the other differences column recognises adjustments to the General Fund for the timing differences for premiums and discounts.
- The charge under Taxation and non-specific grant income and expenditure represents the difference between what is chargeable under statutory regulations for council tax and NDR that was projected to be received at the start of the year and the income recognised under generally accepted accounting practices in the Code. This is a timing difference as any difference will be brought forward in future Surpluses or Deficits on the Collection Fund.

The Authority's income and expenditure can be analysed as follows:

Expenditure / Income type	2017/18 (*Restated) £'000	2018/19 £'000
Employee benefits and other staff costs	9,595	10,048
Direct Expenditure	47,841	51,416
Depreciation, Amortisation and Impairment	3,066	1,620
Interest payments	1,323	1,420
Gain (-) / loss on disposal of assets	-	173
Total Expenditure	61,825	64,677
Fees, Charges and Other service income	(40,773)	(41,374)
Interest & Investment income	(58)	(4,897)
Income from Council Tax and Business Rates	(12,245)	(11,501)
Government Grants & Contributions	(9,067)	(11,464)
Total Income	(62,143)	(69,236)
(Surplus) / Deficit on the Provision of Services	(318)	(4,559)

*See note 7 for Prior Period Adjustments

NOTES TO THE CORE FINANCIAL STATEMENTS

9. Adjustments between the accounting basis and funding basis under regulations

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

General Fund Balance

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

Capital Receipts Reserve

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

Capital Grants Unapplied

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

2018/19	General Fund £'000	Capital Grants Unapplied £'000	Usable Capital Receipts £'000
Adjustments to the Revenue Resources			
Pensions Costs	2,721	-	-
Council Tax and NDR	(734)	-	-
Reversal of entries included in the Surplus or Deficit on the Provision of Services in relation to capital expenditure	(6,406)	4,196	-
Total Adjustments to Revenue Resources	(4,419)	4,196	-
Adjustments between Revenue and Capital Resources			
Transfer of non-current asset sale proceeds from revenue to the Capital Receipts Reserve	(13)	-	13
Statutory provision for the repayment of debt	(159)	-	-
Total Adjustments between Revenue and Capital Resources	(172)	-	13
Adjustments to Capital Resources			
Use of the Capital Receipts Reserve to finance capital expenditure	-	-	(66)
Total Adjustments to Capital Resources	-	-	(66)
Total Adjustments	(4,952)	4,196	(53)

NOTES TO THE CORE FINANCIAL STATEMENTS

The comparative adjustments made between accounting basis and funding basis in 2017/18 are as follows:

2017/18 (*Restated)	General Fund £'000	Capital Grants Unapplied £'000	Usable Capital Receipts £'000
Adjustments to the Revenue Resources			
Pensions Costs	(1,549)	-	-
Council Tax and NDR	(263)	-	-
Holiday Pay	24	-	-
Reversal of entries included in the Surplus or Deficit on the Provision of Services in relation to capital expenditure	1,772	(4,905)	-
Total Adjustments to Revenue Resources	(16)	(4,905)	-
Adjustments between Revenue and Capital Resources			
Transfer of non-current asset sale proceeds from revenue to the Capital Receipts Reserve	250	-	(250)
Statutory provision for the repayment of debt	650	-	-
Total Adjustments between Revenue and Capital Resources	900	-	(250)
Adjustments to Capital Resources			
Use of the Capital Receipts Reserve to finance capital expenditure	-	-	126
Application of capital grants to finance capital expenditure	-	682	-
Total Adjustments to Capital Resources	-	682	126
Total Adjustments	884	(4,223)	(124)

*See note 7 for Prior Period Adjustments

NOTES TO THE CORE FINANCIAL STATEMENTS

10. Transfers to/from earmarked reserves

This note sets out the amounts set aside from the General Fund in earmarked reserves to provide for future expenditure plans and the amounts posted back from earmarked reserves to meet General Fund expenditure in 2018/19.

	Balance at 31 March 2017 £'000	Transfers out 2017/18 £'000	Transfers in 2017/18 £'000	Balance at 31 March 2018 £'000	Transfers out 2018/19 £'000	Transfers in 2018/19 £'000	Balance at 31 March 2019 £'000
General Fund - earmarked	965	(752)	22	235	-	973	1208
Legal Reserve	385	-	-	385	-	(385)	-
Insurance Reserve	653	-	-	653	-	-	653
Capital Reserve	348	-	-	348	(335)	-	13
Restructuring Reserve	597	-	-	597	(179)	-	418
Financial Management Reserve	208	-	-	208	(208)	-	-
Total	3,156	(752)	22	2,426	(722)	588	2,292

11. Other Operating Expenditure

Other Operating Expenditure, as shown in the Comprehensive Income & Expenditure Account, is made up of the following items of expenditure:

	2017/18 £'000	2018/19 £'000
Loss / (Surplus) on impairment of non-current assets	-	173
Total	-	173

NOTES TO THE CORE FINANCIAL STATEMENTS

12. Financing and Investment Income and Expenditure

Financing and Investment income and Expenditure, as shown in the Comprehensive Income & Expenditure Account, is made up of the following items of expenditure:

	2017/18 £'000	2018/19 £'000
Pensions Interest Expenditure	1,180	1,270
Property Investment Expenditure	58	50
Interest Payable and similar charges	143	150
Total Financing and Investment Expenditure	1,381	1,470
Property Investment Income	(1,522)	(1,248)
Change in the fair value of investment properties	(864)	(3,579)
Cash Investment Income	(58)	(71)
Total Financing and Investment Income	(2,444)	(4,898)
Total Financing and Investment Income and Expenditure	(1,063)	(3,428)

13. Taxation and non-specific grant income

Taxation and non-specific grant income, as shown in the Comprehensive Income & Expenditure Account, is shown in the table below. Specific revenue grants have been credited to the relevant service line in the Net Cost of Services. Specific grants received are disclosed in note 31.

	2017/18 £'000	2018/19 £'000
Council Tax Income	(7,786)	(8,060)
Business Rates retention income	(4,459)	(3,441)
New Homes Bonus	(2,044)	(1,788)
Revenue Support Grant	(771)	(290)
Other Non-Specific general grants	-	(1,170)
Capital grants and contributions	(3,410)	(1,108)
Total Taxation & Non-Specific Grant Income	(18,470)	(15,857)

NOTES TO THE CORE FINANCIAL STATEMENTS

14. Property, plant and equipment

The table below analyses the movements in property, plant and equipment for the year. Further information on additions and enhancements to fixed assets can be found at note 34.

	Land & Buildings £000	Vehicles, Plant & Equipment £000	Infrastructure Assets £000	Community Assets £000	Total Property, Plant & Equipment £000
Cost or Valuation:					
At 1 April 2018 (restated)	56,583	7,332	1,982	4,7537	70,650
Additions	145	34	17	306	502
Revaluation increases/(decreases) recognised in the Revaluation Reserve	3,268	-	-	-	3,268
Revaluation decreases recognised in the Comprehensive Income & Expenditure Statement	(222)	-	-	-	(222)
At 31 March 2019	59,774	7,366	1,999	5,059	74,198
Accumulated Depreciation and Impairment:					
At 1 April 2018 (restated)	80	(6,878)	(412)	(1,280)	(8,490)
Depreciation Charge	(1,199)	(106)	(33)	(26)	(1,364)
Depreciation written out to the Revaluation Reserve	368	-	-	-	368
Depreciation written out to the Comprehensive Income & Expenditure Statement on revaluation decreases	4	-	-	-	4
At 31 March 2019	(747)	(6,984)	(445)	(1,306)	(9,482)
Net Book Value:					
as at 31 March 2019	59,027	382	1,554	3,753	64,717
as at 31 March 2018 (*restated)	56,663	454	1,570	3,473	62,159

NOTES TO THE CORE FINANCIAL STATEMENTS

Movements in 2017/18:

	Land & Buildings £000	Vehicles, Plant & Equipment £000	Infrastructure Assets £000	Community Assets £000	Total Property, ** Plant & Equipment £000
Cost or Valuation:					
At 1 April 2017	49,400	9,876	1,709	3,406	64,391
Additions			103	1,347	1,450
Reclassifications	2,669	(2,544)	-	-	125
Revaluation increases/(decreases) recognised in the Revaluation Reserve	6,151	-	-	-	6,151
Revaluation increases/(decreases) recognised in the Comprehensive Income & Expenditure Statement	(1,216)	-	-	-	(1,216)
Derecognition - disposals	(250)	-	-	-	(250)
Other movements in cost or valuation	(170)	-	170	-	-
At 31 March 2018 (*restated)	56,583	7,332	1,982	4,753	70,650
Accumulated Depreciation and Impairment:					
At 1 April 2017	(2,011)	(7,288)	(358)	(1,206)	(10,863)
Depreciation Charge	(896)	(139)	(56)	(76)	(1,167)
Depreciation written out to the Revaluation Reserve	3,540	-	-	-	3,540
Depreciation on consolidation	(553)	553	-	-	-
Depreciation on other movements	-	(4)	2	1	(1)
At 31 March 2018 (*restated)	80	(6,878)	(412)	(1,281)	(8,491)
Net Book Value:					
as at 31 March 2018 (*restated)	56,663	454	1,570	3,472	62,159
as at 31 March 2017	47,389	2,588	1,351	2,200	53,528

*See note 7 for Prior Period Adjustments

** There was no PFI asset included in Property, Plant and Equipment in 2017/18 or 2018/19

Depreciation:

The following useful lives and depreciation rates have been used in the calculation of depreciation:

- Buildings - 5-50 years
- Vehicles, Plant, Furniture and Equipment - 3-20 years
- Infrastructure - 10-50 years
- Community Assets - 4-30 years

NOTES TO THE CORE FINANCIAL STATEMENTS

Capital Commitments:

There were no capital commitments outstanding as at 31 March 2019.

Effects of changes in estimates:

The Authority's Accounting Policy requires the componentisation of properties valued at over £5,000,000. The purpose of componentisation is to identify the value of plant, equipment and engineering services within a building and depreciate these separately. Reconsideration of the useful lives and fair value of each component is required when an asset is subject to enhancement expenditure.

Revaluations:

The Authority carries out a rolling programme that ensures all Property, Plant and Equipment required to be measured by the appropriate valuation basis (current value, fair value or historical cost) at least every five years. All Property Plant and Equipment valuations were carried out internally in 2017/18. Investment property valuations have been carried out by Vail Williams LLP. Valuations of land and buildings were carried out in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors, and the accounting policies set out in Note 1 (xvii).

	Other Land & Buildings	Vehicles, plant, furniture & equipment	Total
	£'000	£'000	£'000
Carried at historical cost:	-	7,366	7,366
Valued at fair value as at:			
31-Mar-19	24,445	-	24,445
31-Mar-18	23,766	-	23,766
31-Mar-17	9,630	-	9,630
31-Mar-16	1,320	-	1,320
31-Mar-15	611	-	611
Total cost or valuation	59,774	7,366	67,140

NOTES TO THE CORE FINANCIAL STATEMENTS

15. Investment Properties

The following items of income and expenditure have been accounted for in the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. Investment property income forms part of the Council's investment income and expenditure, which is detailed in note 12.

	2017/18 (*restated) £'000	2018/19 £'000
Rental income from investment property	(1,522)	(1,245)
Direct operating expenses arising from investment property	58	50
Total direct income and expenditure	(1,464)	(1,195)
Change in fair value of investment property	(864)	(3,579)
Net (gain)/ loss	(2,328)	(4,774)

There is no restriction on the Authority's ability to realise the value inherent in its investment property or on the Authority's right to the remittance of income and the proceeds of disposal. The Authority has no contractual obligation to purchase, construct, develop or enhance investment property. The following table summarises the movement in the fair value of investment properties over the year:

	2017/18 (*restated) £'000	2018/19 £'000
Balance at the start of the year	21,737	22,476
Reclassification of investment property	(125)	-
Net gains from fair value adjustments	864	3,579
Balance at the end of the year	22,476	26,055

16. Intangible Assets

The Authority accounts for its software as intangible assets, to the extent that the software is not an integral part of a particular IT system and accounted for as part of the hardware item of Property, Plant and Equipment. The intangible assets include both purchased licences but not internally generated software.

All software is given a finite useful life, based on assessments of the period that the software is expected to be of use to the Authority. The useful lives assigned to the major software suites used by the Authority are 4-6 years.

The carrying value of intangible assets is cost less any accumulated amortisation and any accumulated impairment loss. The cost is amortised on a straight-line basis. The amortisation of £36,000 charged to revenue in 2018/19 was attributed to the Service Head for Finance (£34,000) and to the Head of Organisational Development (£2,000) within Net Expenditure.

NOTES TO THE CORE FINANCIAL STATEMENTS

The movement on Intangible Asset balances during the year is as follows:

	2017/18 £'000	2018/19 £'000
Balance at the start of the year:		
Gross carrying amounts	856	878
Accumulated amortisation	(625)	(652)
Net carrying amount at the start of the year	231	226
Additions in the year	23	-
Amortisation for the period	(27)	(36)
Impairment	-	(186)
Net carrying amount at 31st March	226	4

The impairment of £186k relates to one item of capitalised software, namely the Civica finance system.

17. Financial Instruments

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

Where financial assets are solely payments of principal and interest, these will be categorised at Amortised cost. Financial liabilities will be accounted for at amortised cost unless they are held for trading. The Council does not hold any such debt instruments.

The following categories of financial instruments are carried in the Balance Sheet. This note has been revised to incorporate all financial instruments.

Note 17.1 Financial Assets	Current 2017/18 £'000	Non-Current 2017/18 £'000	Current 2018/19 £'000	Non-Current 2018/19 £'000
Investments				
Amortised Cost	17,609	-	21,815	-
Debtors				
Amortised Cost	2,080	472	5,064	351
Total Financial Assets	19,689	472	26,879	351

Note 17.2 Financial Liabilities	Current 2017/18 £'000	Non-Current 2017/18 £'000	Current 2018/19 £'000	Non-Current 2018/19 £'000
Borrowings				
Amortised Cost	(90)	(3,786)	(93)	(3,598)
Creditors				
Amortised Cost	(2,141)	-	(5,959)	-
Total Financial Liabilities	(2,231)	(3,786)	(6,052)	(3,598)

NOTES TO THE CORE FINANCIAL STATEMENTS

Material Soft Loans

The authority makes loans for car purchases to employees in the authority who are in posts that require them to drive regularly on the authority's business. None of these loans are considered material for the purposes of this note.

Gains and Losses in the Comprehensive Income and Expenditure Statement

The gains and losses recognised in the Comprehensive Income & Expenditure Statement in relation to financial instruments are made up as follows:

	2017/18		2018/19	
	Financial Assets – Amortised Assets £'000	Financial Liabilities at Amortised Cost £'000	Financial Assets – Amortised Assets £'000	Financial Liabilities at Amortised Cost £'000
Interest expenditure	141	-	149	-
Fee Expenditure	3	-	1	-
Total Expense	144	-	150	-
Interest income (Cash)	(79)	-	(78)	-
Interest income (Accrued)	-	-	-	-
Total Income	(79)	-	(78)	-
Net Gain / Loss (-) for the year	65	-	72	-

Fair Value of Assets & Liabilities

Financial Assets & Liabilities (recognised by amortised assets and liabilities) and long-term debtors and creditors are carried in the Balance Sheet at amortised cost. Their fair value can be assessed by calculating the present value of the cash flows that will take place over the remaining term of the instruments, using the following assumptions:

- Estimated ranges of interest rates, based on new lending rates.
- No early repayment or impairment is recognised.
- Where an instrument will mature in the next 12 months, carrying amount is assumed to approximate fair value.
- The fair value of trade and other receivables is taken to be invoiced or billed amount.

NOTES TO THE CORE FINANCIAL STATEMENTS

Note 17.3 Fair Value disclosures – Financial Assets	31 March 18		31 March 19	
	Carrying Amount £'000	Fair Value £'000	Carrying Amount £'000	Fair Value £'000
Financial Assets				
Financial Assets held at amortised cost	17,609	17,609	21,815	21,815
Debtors	2,552	2,552	5,415	5,415
Total Financial Assets	20,161	20,161	27,230	27,230

Note 17.4 Fair Value disclosures – Financial Liabilities	31 March 18		31 March 19	
	Carrying Amount £'000	Fair Value £'000	Carrying Amount £'000	Fair Value £'000
Financial Liabilities				
Financial Liabilities held at amortised cost	(3,628)	(3,628)	(3,443)	(3,443)
Creditors	(2,141)	(2,141)	(5,959)	(5,959)
Finance Lease Liabilities	(248)	(248)	(248)	(248)
Total Financial Liabilities	(6,017)	(6,017)	(9,650)	(9,650)

18. Inventories

The Council did not hold stock of a material value at 31 March 2019.

NOTES TO THE CORE FINANCIAL STATEMENTS

19. Debtors

Long term debtors are amounts owed to the authority that are due after 12 months or more. Current debtors are amounts that are owed to the authority that are due during the next financial year.

	Balance at 31 March 2018 £'000	Balance at 31 March 2019 £'000
Amounts falling due within one year		
Prepayments and accrued income	3,211	3,437
HM Revenue and Customs (Value Added Tax)	422	-
Other Local Authorities	265	2,454
Collection Fund - Havant Borough Council	3,220	2,265
Partnership Companies	478	307
Debtors for services	451	1,446
Community Infrastructure Levy Debtor S/T	1,401	1,658
Housing Benefit Debtors	2,471	2,842
Debtors due within one year	11,919	14,409
Doubtful debts allowance		
General Fund	(2,243)	(2,572)
Collection Fund	(1,831)	(334)
Total Debtors due within 1 year	7,845	11,503

Long Term Debtors		
Employee Car Loans	77	51
Loans to Local Organisations	10	10
Community Infrastructure Levy Debtor L/T	385	290
Total Long-Term Debtors	472	351

20. Cash and cash equivalents

The authority defines cash equivalents as any financial instrument that can be immediately converted into a known amount of cash without incurring any penalty. Cash Equivalents were made up of the following elements:

	31 March 2018 £'000	31 March 2019 £'000
Bank current accounts	402	142
Short term deposits	18,053	21,779
Total cash and cash equivalents	18,455	21,921
Bank overdraft	(846)	(106)
Total cash, cash equivalents and bank overdraft	17,609	21,815

NOTES TO THE CORE FINANCIAL STATEMENTS

21. Creditors

Creditors are amounts owed by the authority at 31 March.

	Balance 31 March 2018	Balance 31 March 2019
	£'000	£'000
Amounts falling due within one year		
Accruals and income in advance	4,335	8,114
Government departments	2,675	1,313
Her Majesty's Revenues and Customs (Income Tax)	198	265
Collection Fund balance due from Central Government and Major Preceptors	214	1,426
Other Local Authorities	-	10
Collection Fund - Havant Borough Council	668	238
Creditors for goods and services	647	816
Total Creditors payable within 1 Year	8,737	12,182
Amounts falling due over one year		
Finance Lease - Regional Business Centre (Note 35)	248	248
Total Creditors payable after 1 year	248	248

NOTES TO THE CORE FINANCIAL STATEMENTS

22. Provisions

Provisions at 31 March 2019 represent amounts set aside for the purpose of providing for liabilities, which are likely or certain to be incurred but are uncertain as to the amount or the date on which they will arise.

Insurance claims are met by an insurance fund operated by the Council. Insurance premiums are paid into the fund from the revenue account by services requiring insurance cover. Insurance claims less than the policy excesses, and policy excesses, are then met from the Insurance Fund. Risks covered by the fund include: Employer's Liability; Third Party Claims; Property; Motor Vehicles; Engineering; Terrorism; Officials Indemnity and Professional Indemnity within agreed excess levels.

Businesses in the Havant Borough Council area are entitled to appeal against the rating valuation of their property. The Council bears 40% of the cost of business rates appeals. The provision is created based on known appeals that have yet to be settled.

Municipal Mutual Insurance (MMI) was a local authority owned mutual providing insurance to the Council which ceased business in 1992. However, MMI is still liable for certain insurance claims which, if not covered by MMI's remaining assets, will be apportioned between the member authorities. A Supreme Court ruling in March 2012 gave certainty that MMI will incur full liability for Mesothelioma claims, significantly increasing the likelihood that costs will be incurred by the Council. The latest estimate of potential liability is £5,000 and the prior year provision of £100,000 has been released.

	Insurance Fund £'000	Business Rates Backdated Appeals £'000	S106 Interest £'000	MMI £'000	Total £'000
Balance outstanding at 1 April 2018	92	592	13	100	797
Additional provisions made during the year	-	-	-	-	-
Unused amounts reversed in the year	-	-	-	(95)	(95)
Amounts used in the year	(3)	(107)	(13)	-	(123)
Balance outstanding at 31 March 2019	89	485	-	5	579

Under one year	63	-	-	-	63
One year and over	26	485	-	5	516
Balance outstanding at 31 March 2019	89	485	-	5	579

NOTES TO THE CORE FINANCIAL STATEMENTS

23. Usable reserves

Movements in usable reserves are detailed in the Movement in Reserves Statement and Note 10.

	Balance at 31 March 2018 £'000	Movement in year £'000	Balance at 31 March 2019 £'000
General Fund Balance	7,303	100	7,403
Earmarked Reserves	2,426	(134)	2,292
Capital Receipts Reserve	1,437	(53)	1,385
Capital Grants and other contributions unapplied	8,687	4,196	12,883
Total	19,853	4,109	23,963

24. Unusable reserves

	31 March 2018 (*Restated) £'000	31 March 2019 £'000
Revaluation reserve	35,148	37,582
Capital adjustment account	39,722	43,361
Pensions reserve	(49,989)	(46,930)
Collection fund adjustment account	(853)	(119)
Accumulated absences account	(80)	(80)
Total unusable reserves	23,948	33,814

*See note 7 for Prior Period Adjustments

NOTES TO THE CORE FINANCIAL STATEMENTS

Revaluation reserve:

The revaluation reserve contains the gains made by the Authority arising from the increases in the value of its property, plant and equipment. The balance is reduced when assets with accumulated gains are:

- revalued downwards or impaired and the gains are lost
- used in the provision of services and the gains are consumed through depreciation, or
- disposed of and the gain is realised.

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 of the

Revaluation Reserve

	31 March 2018		31 March 2019	
	(*restated)			
	£'000	£'000	£'000	£'000
Balance outstanding at start of year		25,309		35,148
Upward revaluation of assets	16,379		5,357	
Downward revaluation of assets and impairment losses not charged to the Surplus/Deficit on the Provision of Services	(6,060)		(1,612)	
Surplus or deficit on revaluation of non-current assets not posted to the Surplus or Deficit on the Provision of Services		10,319		3,638
Difference between fair value depreciation and historical cost depreciation		(480)		(1,204)
Balance outstanding at end of year		35,148		37,582

NOTES TO THE CORE FINANCIAL STATEMENTS

Capital adjustment account:

	31 March 2018 (* restated) £'000	31 March 2019 £'000
Balance outstanding at start of year	40,892	39,772
Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:		
- Charges for depreciation and impairment of non-current assets	(1,824)	(1,366)
- Amortisation of intangible assets	(27)	(36)
- Revenue expenditure funded from capital under statute	(653)	(974)
- Revaluation losses on Property, Plant and Equipment	(1,188)	(219)
- 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	(250)	(186)
	(3,942)	(2,781)
Adjusting amounts written out of the Revaluation Reserve	480	1,204
Net written out amount of the cost of non-current assets consumed in the year	(3,462)	(1,576)
Capital financing applied in the year:		
- Use of the Capital Receipts Reserve to finance new capital expenditure	126	66
- Capital grants and contributions applied to capital financing	653	-
- Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	-	1,411
- Statutory provision for the financing of capital investment charged against the General Fund	650	159
	1,429	1,636
Movements in the market value of Investment Properties debited or credited to the Comprehensive Income and Expenditure Statement	864	3,579
Balance outstanding at end of year	39,772	43,361

NOTES TO THE CORE FINANCIAL STATEMENTS

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 Authority 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 Authority.

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.

Note 9 provides details of the source of all the transactions posted to the account, apart from those involving the Revaluation Reserve.

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 Authority 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, statutory arrangements require benefits earned to be financed as the Authority 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 Authority 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.

	31 March 2018 £'000	31 March 2019 £'000
Balance outstanding at start of year	(48,230)	(49,989)
Actuarial gains or (losses) on pensions assets and liabilities	(210)	5,780
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	(3,290)	(4,620)
Employer's pensions contributions and direct payments to pensioners payable in the year	1,741	1,899
Balance outstanding at end of year	(49,989)	(46,930)

NOTES TO THE CORE FINANCIAL STATEMENTS

Collection Fund adjustment account

The Collection Fund adjustment account manages the differences arising from the recognition of council tax income in the Comprehensive Income and Expenditure Statement as it falls due from council tax payers compared with the statutory arrangements for paying across amounts to the General Fund from the Collection Fund.

	31 March 2018 £'000	31 March 2019 £'000
Balance outstanding at start of year	(590)	(853)
Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from income calculated for the year in accordance with statutory requirements	(7)	(28)
Amount by which Business Rates income credited to the Comprehensive Income and Expenditure Statement is different from income calculated for the year in accordance with statutory requirements	(256)	762
Balance outstanding at end of year	(853)	(119)

Accumulated absences account

The accumulated absences account absorbs the differences that would otherwise arise on the General Fund balance from accruing for compensated absences earned but not taken in the year, e.g. annual leave entitlement carried forward at 31 March. Statutory arrangements require that the impact on the General Fund balance is neutralised by transfers to or from the account

	31 March 2018 £'000	31 March 2019 £'000
Balance outstanding at start of year	(105)	(80)
Settlement or cancellation of accrual made at the end of the preceding year	105	80
Amounts accrued at the end of the current year	(80)	(80)
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	24	-
Balance outstanding at end of year	(80)	(80)

NOTES TO THE CORE FINANCIAL STATEMENTS

25. Net cash flow from operating activities

The cash flows for operating activities include the following items.

	31 March 2018 (*Restated) £'000	31 March 2019 £'000
Net Surplus / Deficit (-) on the Provision of Services	318	4,559
Adjustments to net surplus / deficit on the provision of services for non-cash movements		
Depreciation and amortisation of fixed assets	1,173	1,402
Impairment and downward valuations	1,872	218
Net book value of disposed assets	250	186
Increase / (-) Decrease in capital grants in advance	11	(335)
Increase (-) / Decrease in debtors	(3,233)	(3,537)
Increase / (-) Decrease in creditors	1,762	3,445
Increase / (-) Decrease in provisions	(105)	(216)
Movement in pension liability	1,629	3,028
Change in fair value of investment properties	(864)	(3,579)
Other non-cash items charged to the net surplus or deficit on the provision of services	51	(170)
Total adjustments for non-cash movements	2,546	442
Adjustments for items included in the net surplus / deficit on the provision of services that are investing and financing activities		
Proceeds from the sale of property, plant and equipment, investment property and intangible assets	(250)	(186)
Any other items for which the cash effects are investment or financing cash flows	(4,905)	(1,103)
Total adjustments for investing and financing activities	(5,155)	(1,289)
Total Operating Activities	(2,291)	3,712

NOTES TO THE CORE FINANCIAL STATEMENTS

26. Net cash flow from investing activities

	31 March 2018 £000	31 March 2019 £000
Purchase of property, plant and equipment, investment property and intangible assets	(1,473)	(502)
Other payments for investing activities	(28)	-
Proceeds from the sale of property, plant and equipment, investment property and intangible assets	250	(13)
Other receipts for investing activities	4,905	1,103
Net cash flows from investing activities	3,654	588

27. Net cash flow from financing activities

	2017/18 £'000	2018/19 £'000
Cash repayments of short and long-term borrowing	(84)	(93)
Net cash flows from financing activities	(84)	(93)

NOTES TO THE CORE FINANCIAL STATEMENTS

28. Officers' Remuneration

The remuneration paid to the Authority's senior employees* is as follows:

Post Holder information	Year	Salary, fees and allowances £	Employers' pension contributions £	Net cost to Havant Borough Council £	Net cost to East Hampshire District Council £
Chief Executive (until December 2018)	2018/19	101,030	16,169	58,600	58,600
	2017/18	132,066	18,621	75,344	75,344
Chief Executive (From January 2019)	2018/19	31,586	4,769	18,178	18,178
	2017/18	-	-	-	-
Executive Director - Operations (Agency fee June to October 2017, employed from November 2017, Left November 2018)	2018/19	84,150	12,642	48,396	48,396
	2017/18	110,000	2,585	56,293	56,293
Executive Director - Governance (left 19/03/18)	2018/19	-	-	-	-
	2017/18	104,421	13,743	59,082	59,082
Executive Director - Place (until December 2018)	2018/19	78,878	11,911	45,394	45,394
	2017/18	103,109	13,133	58,121	58,121
Chief Finance Officer S151 (employed from December 2017)	2018/19	88,005	13,289	50,647	50,647
	2017/18	50,859	3,871	27,365	27,365
Executive Director - Operations (From January 2019)	2018/19	17,763	2,483	10,123	10,123
	2017/18	-	-	-	-
Executive Director - Place (From January 2019)	2018/19	22,740	3,397	13,069	13,069
	2017/18	-	-	-	-
Total cost of senior officers	2018/19			244,407	244,407
Total cost of senior officers	2017/18			276,205	276,205

*A senior employee is defined as an officer who earns a salary of more than £150,000 per annum, or is the designated head of the paid service, or is a statutory chief officer, or is any person having responsibility for the strategic management of the council, to the extent that the officer has power to direct or control the major activities of the council activities involving the expenditure of money, whether solely or collectively with other officers. The Council shares its management team 50/50 with East Hampshire District Council. The remuneration disclosed excludes any payments for secondary employment in respect of election duties.

NOTES TO THE CORE FINANCIAL STATEMENTS

The Authority's other employees receiving more than £50,000 remuneration for the year (excluding employer's pension contributions) were paid the following amounts, based on pro rata salary rather than actual payments:

Bands	Number of Employees			
	2018/19 excl termination benefits	2018/19 inc termination benefits	2017/18 excl termination benefits	2017/18 inc termination benefits
£50,000 - £54,999	4	4	-	-
£55,000 - £59,999	2	3	2	2
£60,000 - £64,999	1	1	-	-
£65,000 - £69,999	-	-	4	5
£70,000 - £74,999	4	4	-	-
£75,000 - £79,999	1	1	2	2
£80,000 - £84,999	-	-	-	-
£85,000 - £89,999	-	-	1	1
£90,000 - £94,999	-	-	-	-
£95,000 - £99,999	-	-	-	-
£100,000 - £104,999	-	1	-	-
	12	14	9	10

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

Cost band	Number of compulsory redundancies		Total cost of exit packages £	
	2017/18	2018/19	2017/18	2018/19
£0 - £20,000	3	2	26,500	7,477
£20,001 - £40,000	-	1	-	22,502
£40,001 - £60,000	1	-	41,848	
£60,001 - £80,000	-	-	-	
£80,001 - £100,000	-	1	-	87,120
Total	4	4	68,348	117,099

29. Members' Allowances

The Authority paid the following amounts to members of the council during the year.

	2017/18 £'000	2018/19 £'000
Allowances	315	312
Expenses	6	8
Total	321	320

NOTES TO THE CORE FINANCIAL STATEMENTS

30. External audit costs

The Authority 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 Authority's external auditors:

	2017/18 £'000	2018/19 £'000
Fees payable regarding external audit services carried out by the appointed auditor for the year	46	79
Fees payable for the certification of grant claims and returns for the year	9	28
Total	55	107

31. Grant Income

The Authority credited the following grants, subsidies and contributions to the Net Cost of Services in 2018/19:

Credited to services	2017/18 (*restated) £'000	2018/19 £'000
Disabled Facilities Grants	1,490	2,720
CIL Contributions	-	1,739
Department for work and pensions: Housing Benefits Subsidy	30,734	29,444
Housing Benefit - Discretionary Housing Grant	268	229
Housing Benefit Rent Rebate Subsidy	-	62
Housing Benefit - Administration Grant	364	340
Public Health Grant	12	12
Mend Grant	7	7
Older People Grant	3	3
Hants & Local Welfare Assistance Grant	10	-
EA P2P	29	-
Community Housing Grant	48	47
Burden Housing	18	77
Coastal Community Team	50	5
HCC Elections	115	30
Sport & Physical Activity	15	15
S106 Funding	40	-
Homelessness Support Grant	39	475
CT Flood Grant	169	342
Total	33,411	35,547

*See note 7 for Prior Period Adjustments

NOTES TO THE CORE FINANCIAL STATEMENTS

The Authority also credited the following general grants and contributions to the Comprehensive Income and Expenditure Statement, as outlined at note 13:

Credited to taxation and non-specific grant income	2017/18 £'000	2018/19 £'000
Council Tax Family Annex grant	1	-
New Homes Bonus	2,044	1,788
Revenue support grant	771	290
Total General Grants	2,816	2,078

Capital Grants & Contributions	2017/18 £'000	2018/19 £'000
CIL Contributions	2,333	917
Other external contributions	1,076	191
Total Capital Grants	3,409	1,108

Capital Grants and Contributions in advance	2017/18 £'000	2018/19 £'000
Havant Borough Council Plaza	1,780	1,702
Other S106 Developers Contributions	1,669	1,473
Total Capital Grants and Contributions in advance	3,449	3,175

The Authority is holding a balance of £3.17m on the Balance Sheet in respect of Capital Grants and Contributions received in advance. This balance includes both developers' contributions and a contribution from Hampshire County Council.

The Council received a contribution of £1.70m from Hampshire County Council towards the cost of the refurbishment of the Public Service Plaza. With effect from 1 June 2012 the Council agreed that Hampshire County Council could occupy a proportion of the Public Service Plaza for 25 years. The contribution is held in the Balance Sheet as a receipt in advance to be amortised in equal annual instalments to the Comprehensive Income and Expenditure Account (CI&E) over the term of the occupancy agreement.

32. Related Parties

The Authority is required to disclose material transactions with related parties. These are bodies or individuals that have the potential to control or influence the council or to be controlled or influenced by the authority. 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 Authority.

Central Government

Central government has effective control over the general operations of the Authority. It is responsible for providing the statutory framework within which the Authority operates, provides a significant amount of funding in the form of grants and prescribes the terms of many of the transactions that the Authority has with other parties, for example council tax bills and housing benefits. Grants received from government departments are detailed in Note 31.

Members

Members of the council have direct control over the council's financial and operating policies. The total of members' allowances paid in 2018/19 is shown in Note 29. There was no known material related party transaction with councillors for 2018/19 or for 2017/18.

Officers

There was no known material related party transaction with officers for 2018/19 or for 2017/18.

Entities Controlled or Significantly influenced by the Authority

The Authority provided material assistance to Havant & District Citizens Advice Bureaux of £114,000 (£114,372 in 2017/18) and to Community First (Havant & East Hampshire) of £21,309 (£44,904 in 2017/18).

As part of the partnership with Norse South East, two Council representatives are named as a director of Norse South East Ltd due to her representation of Council interests through the Management Board. These are, Gill Kneller (Interim Chief Executive), and Councillor Tony Briggs.

33. Interests in Other Entities

The Council must consider all its interests in entities and prepare a full set of group accounts where they have material interests in subsidiaries, associates or joint ventures. The following actions are carried out:

- Determine whether the Council has any form of interest in an entity
- Assess the nature of the relationship with the Council
- Determine the grounds of materiality whether group accounts should be prepared.

Having considered the accounting requirements and the Council's involvement with all companies and organisations, Group Accounts have been prepared. These incorporate only the results of Norse South East Ltd, an Associate of which the Council owns a 20% share.

Norse South East Ltd

In 2016/17 the Council entered into an agreement with Norse Commercial Services Ltd for the provision of services including Refuse and recycling collection and Grounds Maintenance. A new company, Norse South East Ltd, was formed to deliver this service.

Group Accounts have been prepared as the Council has the power to participate in operating decisions, and because transactions between Norse South East Ltd and the Council are material. The Group Accounts incorporate the Council's share of net assets and surplus of Norse South East Ltd, as an associate, using the Equity method.

Norse South East Ltd prepared its accounts to 31 March 2019. The group accounts are included in this document as additional columns to the Council's Primary Statements, showing the extent of the Council's 20% interest in the Company.

In addition, the following information is disclosed to aid understanding of the nature of the group relationship and the impact of the arrangement on the Council's Statutory Accounts.

- a) The registered name of the Company is Norse South East Ltd
- b) Nature of the business. The principal activities of the Company are those of refuse and recycling collection and grounds maintenance services.
- c) The immediate parent undertaking is Norse Commercial Services Ltd
- d) The ultimate parent is Norse Group Ltd
- e) The Company's ultimate controlling entity is Norfolk County Council, who own 100% of the ordinary share
- f) The Council holds a 20% share of the company and receives a 50/50 profit/loss share at year end.
- g) The Company's contribution to its pension scheme is treated as if they are contributions to a defined contribution scheme. The Company pays a set contribution over the life of the agreement, with any increase or decrease met by the Council.
- h) Payments made to Norse South East Ltd in respect of refuse, recycling, cleansing and maintenance services are included in the Net cost of Services in the Comprehensive Income & Expenditure Statement. Total payments in 2018/19 amounted to £5,058,449
- i) Details of the Company's annual financial results at 31 March 2019 are set out below.

NOTES TO THE CORE FINANCIAL STATEMENTS

Norse South East Ltd 2018/19 Balance Sheet

	Norse South East Ltd 2018/19 £	Havant Borough Council 20% Investment 2018/19 £
Non-current assets		
Inventories	101,745	20,349
Trade and other receivables	1,155,611	231,122
Cash and cash equivalents	759,373	151,875
Deferred tax asset	-	-
Total current Assets	2,016,729	403,346
Total assets	2,016,729	403,346
Current liabilities		
Trade & other creditors	(1,376,142)	(275,228)
Accruals and deferred income	(231,771)	(46,354)
Total current liabilities	(1,607,912)	(321,582)
Total liabilities	(1,607,912)	(321,582)
Net assets	408,817	81,764
Total equity/retained earnings	408,817	81,764

Norse South East Ltd Profit & Loss Account

	Norse South East Ltd 2018/19 £	HBC 20% Investment 2018/19 £
Group revenue	6,650,997	1,330,199
Cost of sales - recurring	(4,872,322)	(974,464)
Gross profit	1,778,675	355,735
Administrative expenses	(1,590,011)	(318,002)
Operating profit	188,664	37,733
Finance costs	-	-
Profit before taxation	188,664	37,733
Taxation	(36,160)	(7,232)
Profit for the financial year	152,504	30,501

NOTES TO THE CORE FINANCIAL STATEMENTS

Other Partnerships

The Council has an interest in Portchester Crematorium Joint Committee which manages the operations of Portchester Crematorium. The Joint Committee is represented equally by the four constituent authorities, Fareham Borough Council, Havant Borough Council, Gosport Borough Council and Portsmouth City Council. Further information can be obtained from: The Treasurer to the Joint Committee, Civic Centre, Civic Way, Fareham. The accounts of this entity have not been consolidated into the financial statements of the Council. Havant Borough Council's share of the net assets of Portchester Crematorium Joint Committee is £1,974,615 (£1,990,339 in 2017/18). During 2018/19 the Council received £150,000 from the Portchester Crematorium Joint Committee (£145,000 in 2017/18) being its share of the distributable surpluses.

34. 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 Authority, the expenditure results in an increase in the Capital Financing Requirement (CFR), a measure of the capital expenditure incurred historically by the Authority that has yet to be financed. The CFR is analysed in the second part of this note.

	2017/18 £'000	2018/19 £'000
Opening capital financing requirement	9,084	9,781
Capital investment:		
- Property, plant and equipment	1,473	503
Revenue expenditure funded from capital under statute	653	974
Sources of finance:		
- Usable Capital receipts	(126)	(510)
- Government grants and other contributions	(653)	(967)
Sums set aside from revenue:		
- MRP	(650)	(159)
Closing capital financing requirement	9,781	9,622

	2017/18 £'000	2018/19 £'000
Explanation of movements in year:		
Increase / (decrease) in underlying need for borrowing (unsupported by government financial assistance)	697	(159)
Increase/(decrease) in capital financing requirement	697	(159)

NOTES TO THE CORE FINANCIAL STATEMENTS

35. Leases

Authority as Lessee

Finance Leases

The Council has acquired a 98-year interest in a regional business centre under a finance lease. The asset acquired under this lease is carried as Property, Plant and Equipment in the Balance Sheet at £75,000 (2017/18 £248,000).

The Authority is committed to making minimum payments under this lease comprising settlement of the long-term liability for the interest in the property acquired by the Authority, and finance costs that will be payable by the Authority in future years while the liability remains outstanding. The minimum lease payments are made up of the following amounts:

	31 March 2018 £'000	31 March 2019 £'000
Finance lease liabilities:		
- current	-	-
- non-current	248	248
Finance costs payable in future years	2,726	2,692
Minimum lease payments	2,974	2,940

The minimum lease payments will be payable over the following periods:

	Finance Lease Liabilities		Minimum Lease Payments	
	31 March 2018 £'000	31 March 2019 £'000	31 March 2018 £'000	31 March 2019 £'000
Not later than one year	-	-	34	34
Later than one year and not later than five years	-	-	136	136
Later than five years	248	248	2,556	2,522
	248	248	2,726	2,692

The minimum lease payments do not include rents that are contingent on events taking place after the lease was entered into, such as adjustments following rent reviews. In 2018/19 £19,078 contingent rents were payable by the Authority (2017/18 £14,000).

Operating Leases

The Authority leases land and property under operating leases for a number of purposes. These include the CCTV Control Room at the Meridian Centre, some recreation land and a car park.

NOTES TO THE CORE FINANCIAL STATEMENTS

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

	31 March 2018 £'000	31 March 2019 £'000
Not later than one year	10	-
Later than one year and not later than five years	25	36
Later than five years	140	138
	175	174

The minimum lease payments receivable do not include amounts that are contingent on future events, such as adjustments arising from rent reviews.

Expenditure on Operating Leases was charged to the following services on the Comprehensive Income and Expenditure Statement as follows:

The Council had no rental obligation as lessee under operating leases during 2018/19.

Service Heading	31 March 2018 £'000	31 March 2019 £'000
Cultural Services	8	8
Environmental & Regulatory Services	2	-
	10	8

Authority as Lessor

Finance Leases

The Authority does not lease any of its assets under a finance lease agreement.

Operating Leases

The Authority leases out property and equipment under operating leases for a number of purposes. These include the generation of income from investment properties, and the provision of community services including sports facilities and economic development purposes.

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

	31 March 2018 £'000	31 March 2019 £'000
Not later than one year	1,892	1,953
Later than one year and not later than five years	6,843	7,274
Later than five years	74,190	74,531
	82,925	83,758

The minimum lease payments receivable do not include amounts that are contingent on future events, such as adjustments arising from rent reviews.

NOTES TO THE CORE FINANCIAL STATEMENTS

36. Impairment losses

The impairment of £186k relates to one item of capitalised software, namely the Civica finance system.

37. Termination Benefits

The Authority terminated the contracts of four employees in 2018/19, incurring liabilities of £117,099 (£68,348 in 2017/18), in the form of compensation for loss of office. There were no costs relating to enhanced pension benefits.

38. Defined benefit pension schemes

The disclosures below relate to the funded liabilities within the Hampshire County Council Pension Fund (the "Fund"), which is part of the Local Government Pension Scheme (the "LGPS"). The LGPS is a funded defined benefit plan, with benefits earned up to 31st March 2014 being linked to final salary. Benefits after 31 March 2014 are based on a Career Average Revalued Earnings scheme. Details of the benefits earned over the period covered by this disclosure are set out in the Local Government Pension Scheme Regulations 2013 and The Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) regulations 2014. The funded nature of the LGPS requires Havant Borough Council and its employees to pay contributions into the Fund, calculated at a level intended to balance the pension liabilities with investment assets. Information on the framework for calculating contributions is set out in LGPS regulations 2013 and the Fund's Funding Strategy Statement. The last actuarial valuation was at 31 March 2018 and the contributions to be paid until 31 March 2020 resulting from that valuation are set out in the Fund's Rates and Adjustment Certificate. The Fund Administering Authority, Hampshire County Council, is responsible for governance of the Fund.

The assets allocated to Havant Borough Council in the Fund are notional and assumed to be invested in line with the investments of the Fund for the purposes of calculating the return to be applied to those notional assets over the Accounting period. The Fund is large and holds a significant proportion of its assets in liquid investments. As a consequence, there will be no significant restriction on realising assets if a large payment is required to be paid from the Fund in relation to an employer's liabilities. The assets are invested in a diversified spread of investments and the approximate split of assets for the Fund as a whole is shown in the disclosures. The administering Authority may invest a small proportion of the Fund's assets in the assets of some of the employers participating in the Fund if it forms part of their balanced investment strategy.

Financial Assumptions	31st March 2017	31st March 2018	31st March 2019
Discount rate	2.5%	2.6%	2.4%
RPI Inflation	3.1%	3.2%	3.3%
CPI Inflation	2.0%	2.1%	2.2%
Pension Increases	2.0%	2.1%	2.2%
Pension Accounts revaluation rate	2.0%	2.1%	2.2%
Rate of general increase of salaries	3.5%	3.6%	3.7%

NOTES TO THE CORE FINANCIAL STATEMENTS

The mortality assumptions are based on the recent actual mortality experience of members within the fund and allow for expected future mortality improvements. Sample life expectancies at age 65 resulting from these mortality assumptions are shown below.

Post Retirement Mortality	31 March 2018	31 March 2019
Male		
Member aged 65 at accounting date	24.1	23.3
Member aged 45 at accounting date	26.2	24.9
Female		
Member aged 65 at accounting date	27.2	26.1
Member aged 45 at accounting date	29.4	27.8

Asset Allocation

The approximate split of assets for the Fund (based on data supplied by the Fund Administering Authority) are shown in the table below.

	Asset split as at 31/3/2018 (% pa)	Asset split as at 31/3/2019		
		Quoted (%)	Unquoted (% pa)	Total (%)
Equities	62.6	54.0	6.4	60.4
Property	7.0	0.7	6.9	7.6
Government Bonds	23.7	22.6	0.1	22.7
Corporate Bonds	1.0	1.1	4.1	5.2
Cash	2.6	2.3	0.0	2.3
Other**	3.1	0.1	1.7	1.8
Total	100.0	80.8	19.2	100.0

The split of the defined benefit obligation at the last valuation date between the various categories of members was as follows;

Active members	26%
Deferred Pensioners	15%
Pensioners	59%

NOTES TO THE CORE FINANCIAL STATEMENTS

Reconciliation of funded status to the Balance Sheet

	Value as at 31 March 17		Value as at 31 March 18		Value as at 31 March 19	
	Funded £m	Unfunded £m	Funded £m	Unfunded £m	Funded £m	Unfunded £m
Fair value of assets	101.44	-	101.47	-	108.25	
Present value of defined benefit obligation	-148.82	-0.85	-150.62	-0.84	-154.41	-0.81
Funded status	-47.38	-0.85	-49.15	-0.84	-46.16	-0.81
Impact of minimum funding requirement / asset ceiling	-	-	-	-	-	-
Asset / (liability) recognised on the balance sheet	-47.38	-0.85	-49.15	-0.84	-46.16	-0.81

Breakdown of amounts recognised in the Surplus or Deficit on the Provision of Services and Other Comprehensive Income.

	Year Ending 31 March 18 £m		Year Ending 31 March 19 £m	
	Funded	Unfunded	Funded	Unfunded
Operating Costs				
Current Service Cost (including allowance for administration £0.02m)	2.11	-	2.08	-
Past Service Costs (including curtailments)	0.02	-	1.27	-
Financing Costs				
Interest on net defined benefit liability / (asset)	1.16	0.02	1.25	0.02
Pension expense recognised in Income & Expenditure	3.29	0.02	4.6	0.02
Re-measurements in Other Comprehensive Income				
Return on plan assets (in excess of) / below that recognised in net interest	-0.57	-	-7.12	-
Actuarial (gains) / losses due to changes in financial assumptions	-0.16	-	7.27	0.02
Actuarial (gains) / losses due to changes in demographic assumptions	0	-	-6.2	-0.03
Actuarial (gains) / losses due to liability experience	0.93	0.01	0.28	-
Total amount recognised in Other Comprehensive Income	0.2	0.01	-5.77	-0.01
Total amount recognised	3.49	0.03	-1.17	0.01

NOTES TO THE CORE FINANCIAL STATEMENTS

Changes to the Present Value of defined benefit obligation during the accounting period

This table reconciles the movement in the overall pension liability for the year.

	Year Ended 31 March 18 £m		Year Ended 31 March 19 £m	
	Funded	Unfunded	Funded	Unfunded
Opening defined benefit obligation	148.82	0.85	150.62	0.84
Current service cost	2.11	-	2.08	-
Interest expense on defined benefit obligation	3.66	0.02	3.85	0.02
Contributions by Participants	0.48	-	0.48	-
Actuarial Gains (-) / Losses - financial assumptions	-0.16	-	7.27	0.02
Actuarial Gains (-) / Losses - demographic assumptions	-	-	-6.2	-0.03
Actuarial Gains (-) / Losses - experience	0.93	0.01	0.28	-
Net Benefits Paid out	-5.24	-0.04	-5.24	-0.04
Past Service Cost	0.02	-	1.27	-
Closing defined benefit obligations	150.62	0.84	154.41	0.81

Changes to the Fair Value of Assets during the Accounting Period

This table reconciles the movement in the fair value of pension assets for the year.

	Year Ended 31 March 18 £m		Year Ended 31 March 19 £m	
	Funded	Unfunded	Funded	Unfunded
Opening Fair Value of Assets	101.44	-	101.47	-
Interest return on Assets	2.5	-	2.6	-
Actuarial Gains / (-) Losses on assets	0.57	-	7.12	-
Contributions by the Employer	1.72	0.04	1.82	0.04
Contributions by Participants	0.48	-	0.48	-
Net Benefits Paid out	-5.24	-0.04	-5.24	-0.04
Closing Present Value of Assets	101.47	-	108.25	-

Actual Return on Assets

This table shows the total return on pension fund assets. This includes the impact of any changes in assumptions made by the actuary.

	Year Ended 31 March 2018 £m	Year Ended 31 March 2019 £m
Interest income on Assets	2.50	2.60
Re-measurement Gains / (-) Losses	0.57	7.12
Actual Return on Assets	3.07	9.72

NOTES TO THE CORE FINANCIAL STATEMENTS

Sensitivity Analysis

The results shown in the Accounts are sensitive to the assumptions used. The approximate impact of changing the key assumptions on the present value of the funded defined benefit obligation as at 31 March 2019 and the projected service cost for the year ending 31 March 2020 is set out below. In each case, the only assumption mentioned is altered; all other assumptions remain the same. Sensitivity on unfunded benefits are excluded on grounds of materiality.

Funded LGPS Benefits	+0.1% pa	Base Figure	-0.1% pa
Discount rate assumptions			
Present value of total obligation (£m)	151.85	154.41	157.01
% change in present value of total obligation	-1.70%		1.70%
Projected service costs (£m)	2.15	2.21	2.28
Approximate % change in service cost	-2.90%		3.00%
Rate of general increases in salaries			
Present value of total obligation (£m)	154.80	154.41	154.02
% change in present value of total obligation	0.30%		-0.30%
Projected service costs (£m)	2.21	2.21	2.21
Approximate % change in service cost	0.00%		0.00%
Rate of general increases in pensions in payment			
Present value of total obligation (£m)	156.62	154.41	152.24
% change in present value of total obligation	1.40%		-1.40%
Projected service costs (£m)	2.28	2.21	2.15
Approximate % change in service cost	3.00%		-2.90%
Post retirement mortality assumptions	-1 Year	Base Figure	+1 Year
Present value of total obligation (£m)	159.31	154.41	149.54
% change in present value of total obligation	3.20%		-3.20%
Projected service costs (£m)	2.30	2.21	2.12
Approximate % change in service cost	3.90%		-3.90%

Estimated Surplus or Deficit on the Provision of Services in future periods

Estimates of charges to the Comprehensive Income and Expenditure Account in future periods are based on assumptions in place as at 31 March 2019, plus an additional assumption to reflect that the projected cost is based on benefits being earned under a CARE scheme.

	2019/20	
	Funded £m	Unfunded £m
Projected Service Cost	2.21	-
Past Service Costs	-	-
Net interest on the net defined liability / (asset)	1.05	0.02
Total	3.26	0.02

Pension costs in future periods

The pension costs shown in the next accounting period's accounts will be different to that shown above. Although it is not possible to give a reliable indication of the impact, the figures shown are subject to change. Reasons why the pension cost may change include:

1. Actual increase in payroll being different to that used in the calculations. The projected payroll figure is estimated from the implied payroll over the current accounting period. A figure of £7,518,000 has been used in the estimate (£7,160,000 in 2017/18). A difference in payroll will particularly affect current service costs.
2. Past service costs may not be zero. This cost is that resulting from benefit augmentations or early retirements before age 60 or on the grounds of efficiency.
3. Curtailment / settlement events may occur (for example, outsourcing, redundancy exercises, or bulk transfers)
4. Actual cash flows over the next accounting period may differ from those assumed.
5. The expected employer contributions in 2018/19 are £1,998,000 (£1,870,000 in 2017/18).

McCloud judgement

When the LGPS was reformed in 2014, transitional protections were applied to certain older members within ten years of normal retirement age. The benefits accrued from 1 April 2014 by these members are subject to an 'underpin' which means that they cannot be lower than what they would have received under the previous benefit structure. The underpin ensures that these members do not lose out from the introduction of the new scheme by effectively giving them the better of the benefits from the old and new schemes.

In December 2018 the Court of Appeal upheld a ruling that similar transitional protections in the Judges' and Firefighters' Pension Schemes were unlawful on the grounds of age discrimination. The implications of the ruling are expected to apply to the LGPS (and other public service schemes) as well. The UK Government has requested leave to appeal to the Supreme Court and is expected to hear later in 2019 if this will be granted. The impact is therefore still highly uncertain, as two opposing outcomes are possible:

1. The Supreme Court overturns the previous ruling and benefits remain as they are, with the underpin only applying to a small group of members.
2. The Government's request for appeal is rejected, or the Supreme Court upholds the existing judgement, and benefits accrued from 2014 may need to be enhanced so that all members, regardless of age, will benefit from the underpin. Alternatively, restitution may be achieved in a different way, for example by paying compensation. In either case, the clear expectation is that younger members would see an enhanced benefit rather than older members losing their existing protections.

Quantifying the impact of outcome 2 is very difficult because it will depend on members' future salary increases, length of service and retirement age. Salary increases in particular can vary significantly from year to year and from member to member depending on factors such as budget restraint, job performance and career progression.

These numbers are high level estimates based on fund level calculations and depend on several key assumptions. The possible range is based on different salary growth and retirement age scenarios and illustrates the level of uncertainty in the figures. The upper end of the range shown is not a definitive limit and the true impact could be higher. A full description of the data, methodology and assumptions underlying these estimates can be provided on request.

The impact on employers' funding arrangements will likely be dampened by the funding arrangements they have in place, specifically the 'stabilisation' mechanism which slows down changes in contribution rates. However, if the judgement is upheld then there will be unavoidable upward pressure on contributions in future years.

39. Contingent liabilities and contingent assets

At 31 March 2019 the authority determined no material contingent liabilities or assets.

40. Nature and extent of risks arising from financial instruments

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

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

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

NOTES TO THE CORE FINANCIAL STATEMENTS

Credit Risk

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

This risk is minimised through the Annual Investment Strategy, which requires that deposits are not made with financial institutions unless they meet identified minimum credit criteria, as laid down by Sector Treasury Services. This service also uses a number of overlays such as credit watches and credit outlooks to enhance the credit ratings of counterparties. The Council's priority when making these deposits is security of capital and liquidity of investments. Deposits are not made with banks and financial institutions unless they are rated independently with a minimum category green in the Sector credit rating system. The approved list of counterparties is amended immediately if any change in sector rating occurs.

Limits for investment with these counterparties are in place; the maximum investment up to 364 days deposited with any one institution in the highest rated category was £4,000,000. No more than £2,000,000 can be invested for a period of more than 365 days without councillor involvement. No investment is to be made in an institution where it could be expected, at the time of investment, that the amount invested with that institution would at any time exceed 50% of the Authority's investments unless the total investments are below £3,000,000 and with authority from the Head of Governance and Logistics.

The Authority's maximum exposure to credit risk in relation to its investments in banks and building societies cannot be assessed generally as the risk of any institution failing to make interest payments or repay the principal sum will be specific to each individual institution. Risks relating to recoverability applies to all of the Authority's deposits, but there was no evidence at the 31 March 2019 that this was likely to crystallise. The Council has experienced no loss arising from defaults on its investments during the last five years.

The Council does not generally allow credit for customers; if it does so the customers are assessed, considering their financial position, past experience and other factors wherever possible.

No credit limit was exceeded during the reporting period. The Council's sundry debt profile was as follows:

Aged Debt	2018/19 Total £'000
Age	
0-30 Days	2,028
31-90 Days	372
91-180 Days	413
Over 180 Days	838
Grand Total	3,651

Liquidity Risk

The Council has £3.44m outstanding with the Public Works Loans Board at a fixed rate of 4.04% for 30 years. The Council is exposed to risk in terms of its exposure to interest rate movements on its borrowing such that a rise in interest rates will lead to the fair value of the borrowing falling. In addition, borrowings take place exceptionally to meet short term cash flow needs. In the event of an unexpected cash requirement the authority has ready access to borrowings from the money markets to cover any day to day cash flow need.

The Council is also required to provide a balanced budget through the Local Government Finance Act 1992, which ensures sufficient monies are raised to cover annual expenditure. Consequently, there is minimal liquidity risk exposure for the Council.

Market Risk

Interest Rate Risk

The Authority 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 rates would have the following effects:

- borrowings at variable rates – the interest expense charged to the Surplus or Deficit on the Provision of Services will rise
- borrowings at fixed rates – the fair value of the liabilities borrowings will fall
- investments at variable rates – the interest income credited to the Surplus or Deficit on the Provision of Services will rise
- investments at fixed rates – the fair value of the assets will fall.

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

The Authority has a number of strategies for managing interest rate risk. The policy is to aim to keep a maximum of 70% of its borrowings in variable rate loans. Due to the nature of the investments held at 31 March, the authority was not exposed to significant interest rate risk.

Price Risk

The Authority does not invest in equity shares.

Foreign Exchange Risk

The Authority has no financial asset or liability denominated in a foreign currency and thus has no exposure to loss arising from movements in exchange rates.

41. Agency Services

The Council is responsible for aspects of highway maintenance within the borough on behalf of Hampshire County Council. The Council spent £233,396 in respect of highway revenue works (£330,000 in 2017/18). The County Council reimburses the Council for this work together with a contribution towards revenue administrative costs. Agency works expenditure is not included in the Comprehensive Income and Expenditure Account but administration costs and the associated County Council reimbursement are included. These grants have been reduced for the current year due to HCC reviewing their spend.

The Council has entered into an agency agreement with Hampshire County Council for the enforcement of On Street parking control. The net cost of this service was £67,000 during 2018/19 (£24,000 in 2017/18); all net costs are included within the Comprehensive Income and Expenditure Account.

The County Council does not reimburse Havant Borough Council for these net costs; however, any cumulative net costs can be reimbursed from any future surplus of income arising from parking enforcement.

42. Events after the Balance Sheet Date

The valuation of the Authority's pension fund has been subject to a post balance sheet revaluation, caused by a court case referred to as 'McCloud'. The Government were appealing against this judgement but their right to appeal was refused in July 2019. As a result, there has been a subsequent revised pensions estimation, undertaken by the Authority's actuaries, resulted in a change in the pension values and disclosures in the accounts. Further detail can be found in Note 38.

The Council made a decision on 20 March 2019 granting authority to bid up to £4.1m excluding costs to acquire the Meridian Shopping Centre. Havant BC already own the freehold of the site and therefore the marriage of the freehold and leasehold secure full control of the site. The independent valuation undertaken by Wilks Head and Eve during Sept 2019 valued the long leasehold interest at £5.740m (excl. any increase in value associated with any special assumptions e.g. special purchaser, marriage value etc) The Council agreed to enter into this acquisition on the basis that Havant BC must intervene to regenerate key areas within the Borough, particularly Havant Town Centre as the private sector has failed to deliver positive change. The opportunity to acquire a 3.35 acre site within the boroughs major town centre fulfils a significant positive move forward in implementing the Council's adopted Regeneration Strategy. The acquisition was made in December 2019.

Covid-19

The current coronavirus outbreak has presented a significant challenge internationally ever since the new strain was first identified in Wuhan City, China in December 2019. On 30 January 2020, the World Health Organisation (WHO) declared the outbreak of coronavirus a 'Public Health Emergency of International Concern'. On 31 January 2020 the first confirmed case of Covid-19 was recorded in the UK.

Following a series of measures enacted by the UK Government in early 2020 to tackle the virus, on 23rd March 2020, the Prime Minister announced a wider lockdown of society to limit the spread of Covid-19. Individuals were asked to stay at home and where possible work from home and only make essential journeys. The result was that a significant portion of UK businesses became unable to carry on operating and many employees were "furloughed" on 80% of their existing salary paid by central Government.

The financial and social outcomes of this are not yet fully understood, however, it is anticipated that the condition will exist for the short to medium future and that it will have a significant impact upon the UK and global economy.

As the condition did not exist at the 31 March 2019 this is therefore a non-adjusting event for which a limited estimate of its financial effect on the reporting entity can be made as at 31 March 2019. We note that the future financial impact for 2019/20 and subsequent financial years may be greater and that there will be further implications and considerations for our Balance Sheet in relation to asset impairments and pension fund liability valuations, as at their respective balance sheet dates.

Whilst any future financial implications of such valuation movements would be recognised within the comprehensive income and expenditure statement in the year to which they relate, in accordance with proper accounting practice, they would be adjusted for within the Movement in Reserve Statement - Adjustments between Accounting Basis & Funding Basis under Regulations, to negate any financial impact on the Council tax payer.

NOTES TO THE CORE FINANCIAL STATEMENTS

Going concern

The concept of a going concern assumes that an authority's functions and services will continue in operational existence for the foreseeable future. The provisions in the in respect of going concern reporting requirements reflect the economic and statutory environment in which local authorities operate. These provisions confirm that, as authorities cannot be created or dissolved without statutory prescription, they must prepare their financial statements on a going concern basis of accounting.

Local authorities carry out functions essential to the local community and are themselves revenue-raising bodies (with limits on their revenue-raising powers arising only at the discretion of central government). If an authority were in financial difficulty, the prospects are thus that alternative arrangements might be made by central government either for the continuation of the services it provides or for assistance with the recovery of a deficit over more than one financial year. As a result of this, it would not therefore be appropriate for local authority financial statements to be provided on anything other than a going concern basis. Accounts drawn up under the Code therefore assume that a local authority's services will continue to operate for the foreseeable future.

The current restrictions in place within the United Kingdom in response to Covid-19 have created significant issues for many businesses and residents and as a result from April 2020, Council income was affected detrimentally as payers sought to defer payments or were unable to pay at all. The government has provided some support for lost income and additional costs borne by authorities because of the crisis and the Council has received just £1.3 million in this regard.

Our most recent balances compared to the year end reported in these statements is as follows.

Date	General Fund	Earmarked reserves
31 March 2018	£7,303	£2,426
31 March 2019	£7,403	£2,292

We have carried out an assessment of the impact of Covid-19 on our finances and identified that we expect:

In respect of 2019/20

A provisional outturn has indicated that additional expenditure and lost revenue had minimum impact on the 2019/20 financial position as the provisional outturn position was favourable. Where there were services that had income impacted this was covered from underspends within other services.

The main income reductions in revenue for 2019/20 relate to forecast parking income and Penalty Charge Notices of approximately £0.050M for the final two weeks of March.

In respect of 2020/21

Analysis of impact on 2020/21 is still being monitored as the situation develops including the possibility of further outbreaks and likely recession later in the financial year. Using actual data and assumptions for the remaining year the following has been factored in:

- Reductions in revenue relate to a 30% reduction in income fees across a range of services for the entire year including Building Control, Planning, Licensing, Off-Street and On-Street Parking, Property and income from Norse South East covering Beach Huts, Bulky waste and garden waste.

Therefore, we expect our income to be £2.5M below that which we planned for within our 2020/21 budget.

- Additional costs relating to Covid-19 assumed at £138,500 based on spend to date and the assumption that further spending will be controlled within existing budgets

We therefore expect the total financial impact of Covid-19 to be £0.138M plus £2.5M for 2020/21.

NOTES TO THE CORE FINANCIAL STATEMENTS

We recognise that there remains uncertainty over how long lockdown arrangements will remain and the impact that will have on our assumptions. The assumption for a 30% is based on impact of the first quarter of 2020/21 being affected by lockdown and that a recession will likely follow from Q2 onwards and there could be possible further lockdowns if a second wave hits later in the year over winter. We have not assumed any additional central government grants within in our assumptions.

We have received government grant funding of £1.32M and have also identified in year budget savings as a result of delayed projects and reduced expenditure of £0.46M giving a total of £1.76M. Therefore we have expect our 2020/21 outturn to show a revised deficit approximately £0.391M. This would be funded from the General Fund balance – which would then have a predicted balance £2.628M at 31 March 2021.

We then expect that the Government’s Local Government Fair Funding Review for 2021/22 be delayed, so we are assuming a flat rate of Government settlement for 2021/22. However, to be prudent we have left our assumption for 2021/22 in line with our previous MTFS planning, which would show a deficit in 2020/21 on the provision of services of £0.872M. We were planning to draw on reserves to the extent of £0.872M. As a result, our General Fund balance at 31 March 2022 is expected to be, on a worst-case scenario, of £2.628M.

Summary of expected General Fund Balance in future years (unaudited):

General Fund Balance					
30% income reduction	2020/21 Estimate	2021/22* Estimate	2022/23* Estimate	2023/24* Estimate	2024/25* Estimate
	£'000	£'000	£'000	£'000	£'000
Opening Balance	3,500	2,628	2,628	2,628	2,628
Movement in Year	(872)	0	0	0	0
Closing Balance	2,628	2,628	2,628	2,628	2,628

*The MTFS is built on assumptions of achieving in-year savings going forward of £2M in 2021/22 and £3M in 2022/23 and work has already started to identify those savings

The General Fund balance will remain above the ‘minimum level of GF balances’ set by our s151, which is £2m, across this timeline.

We have also modelled a further scenario of 50% income reduction as a further down-side scenario, with all other variables remaining constant. This scenario would increase the 2020/21 impact to £2.070m, compared to the £0.872m above. However, the minimum level of General Fund balance would be maintained, using funds transferred from other earmarked reserves

The above information does not take into account the Government announcement on 2 July 2020 regarding reimbursement of lost planned income. Further guidance has not been provided to enable this to be modelled, but it is likely to improve the above projections

43. Authorisation of the statement of accounts

The Statement of Accounts was authorised by the Responsible Finance Officer on XX July 2019.

COLLECTION FUND

The Collection Fund (England) 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	2018/19	2018/19
Total		Business	Council	Total
£'000	<u>Income</u>	Rates	Tax	£'000
		£'000	£'000	£'000
(63,046)	Income from Council Tax		(67,097)	(67,097)
(34,618)	Income collectable from Business Ratepayers	(35,608)	-	(35,608)
(97,664)		(35,608)	(67,097)	(102,705)
	<u>Expenditure</u>			
62,110	Precepts paid to Police and Crime Commissioner, Fire Authority, County and Borough Councils	-	66,864	66,864
(557)	Distribution of previous year's estimated surplus	(2,071)	52	(2,019)
34,701	Business rates payable to central govt and Major Preceptors	34,933	-	34,933
(183)	Provision for Business rates appeals	(267)	-	(267)
1,056	Transitional Relief due to/from (-) Central Government	868	-	868
138	Costs of collection	138	-	138
1,081	Net contribution to Bad Debt Provision	102	418	520
98,346		33,703	67,334	101,037
	<u>Movement on Fund Balance</u>			
1,096	Surplus (-) / Deficit brought forward	2,286	(509)	1,778
682	Surplus (-) / Deficit for the year	(1,905)	236	(1,668)
1,778	Surplus (-) / Deficit carried forward	381	(273)	110

NOTES TO THE COLLECTION FUND

1. Calculation of the council tax base

Council Tax is calculated by reference to the valuation band appropriate to each chargeable dwelling; the total yield being determined by what is known as the band D equivalent. The band D charge in 2018/19 was £1,642.70 (£1,555.18 in 2017/18). The Council Tax base was as follows:

2018/19

Property Value	Tax Band	Dwellings	Band D Equivalents	Weighting
Disabled Relief	AR	-	5	5/9
Up to £40,000	A	4,365	2,910	6/9
Over £40,000 & up to £52,000	B	10,482	8,153	7/9
Over £52,000 & up to £68,000	C	9,511	9,511	8/9
Over £68,000 & up to £88,000	D	8,858	8,858	9/9
Over £88,000 & up to £120,000	E	5,213	6,371	11/9
Over £120,000 & up to £160,000	F	2,328	3,362	13/9
Over £160,000 & up to £320,000	G	893	1,488	15/9
Over £320,000	H	24	49	18/9
		41,674	40,707	

2. Non-Domestic Rateable Value and Rate Multiplier

The total non-domestic rateable value at the 31 March 2019 was £85,364,098 (£84,915,304 at 31 March 2018). The national non-domestic rate multiplier for the year was 49.3p (47.9p at 31 March 2018) and 48p for small businesses (46.6p at 31 March 2018).

3. Precepts and Demands on the Collection Fund

Hampshire County Council, Hampshire Police Authority, Hampshire Fire & Rescue Service and Havant Borough Council precept upon the collection fund. The amounts of these precepts, together with the distribution of surpluses or recovery of deficits as at the end of the financial year, were:

2017/18		-----2018/19-----		
Total £'000	Council tax	Precept / Demand £'000	Share of Deficit/ Surplus £'000	Total £'000
45,394	Hampshire County Council	48,884	37	48,921
6,629	Hampshire Police Authority	7,223	6	7,229
2,558	Hampshire Fire & Rescue Service	2,676	2	2,678
7,725	Havant Borough Council	8,081	7	8,088
62,306		66,864	52	66,916

NOTES TO THE COLLECTION FUND

2017/18		-----2018/19-----		
Total £'000	Business Rates	Precept / Demand £'000	Share of Deficit/ surplus £'000	Total £'000
16,974	Central Government	17,467	(1,036)	16,431
3,116	Hampshire County Council	3,144	(186)	2,958
279	Hampshire Fire & Rescue Service	349	(21)	328
13,579	Havant Borough Council	13,973	(828)	13,145
33,948		34,933	(2,071)	32,862

Accrual

This concept means that income and expenditure is accounted for as it is earned or incurred, not as the money is received or paid (cash basis).

Asset

A tangible or intangible item, that is of value to the Authority. Tangible assets include land and buildings, plant and machinery, vehicles, fixtures and fittings. Intangible assets include computer software licenses and in-house software development.

Actuarial Gains & Losses (Pensions)

Over reporting period, these consist of:

- Experience gains and losses are the effects of differences between previous assumptions made when calculating overall pension liability, and what has actually occurred, and
- The effects of changes in actuarial assumptions such as salary inflation and life expectancy on the pension liability.

Billing Authority

The Council responsible for collecting Council Tax from residents. Havant Borough Council is a billing authority.

Business Rates Retention Scheme

A government funding scheme launched in 2013/14 which allows the Council to retain a share of the Business Rates collected in the Borough.

Capital Expenditure

Expenditure on the acquisition or construction of assets, or expenditure that enhances an existing asset that has a long-term value to the authority, particularly land and buildings.

Capital Adjustment Account (CAA)

An accounting reserve which forms part of the capital accounting system and is not available for use. It represents amounts that have been set aside from revenue resources or capital receipts to finance expenditure on fixed assets or for the repayment of external loans.

Capital Programme

The authority's plan of capital projects and spending over future years. Included in this category is the purchase or enhancement of land and buildings, vehicle purchases and other major items of equipment.

Capital Receipts

Income from the sale of land or buildings which can be used to finance new capital expenditure, or to repay outstanding debt on assets originally financed through loans.

Carrying Amount

The cost or value of an asset, less depreciation incurred against that asset.

Cash and Cash Equivalents

Cash relates to the Council's bank balance or overdraft, petty cash and change floats as at 31 March. Cash equivalents relate to cash deposits that are readily convertible into cash at any given time, for example, balances held in the Council's overnight investment account.

Central Services to the Public

This covers services to the public that are often provided by central departments and includes Local Tax Collection, Elections, Emergency Planning, and Local Land Charges.

CIPFA

The Chartered Institute of Public Finance and Accountancy.

GLOSSARY OF TERMS

Collection Fund

Income and expenditure relating to the collection and distribution of Council Tax and National Non-Domestic Rates.

Community Assets

Assets that the Council intend to hold in perpetuity for the benefit of the Community, that have no determinable useful life and that may have restrictions on their disposal. Havant Borough Council's community assets relate mainly to open spaces.

Contingent Assets and Liabilities

A liability that, at the balance sheet date, can be anticipated to arise if a particular event occurs. A typical example is a court case pending against the Council, the outcome of which is uncertain, but if the judgement were to be awarded against the Council, could result in a financial cost being incurred (liability) or an award of income to the council (asset).

Creditors

A creditor is an organisation, body or individual from whom the Council has purchased goods or services but the payment for which has not yet been made.

Current Replacement Cost

The cost of replacing an asset, reduced to reflect obsolescence. This cost is often used to value assets where market values or existing use values are not available.

Current Service Cost

The present value of pension benefits accrued to employees in the period of account.

Curtailment

Curtailments show the cost of the early payment of pension benefits if any employee has been made redundant in the previous financial year.

Debtors

Organisations, bodies or individuals who have received goods or services from the Council for which the payment has not yet been received.

Deferred Credit

This is income that has been received before the period or periods to which it relates. Deferred income is shown in the Balance Sheet.

Deficit

A deficit arises where expenditure exceeds income. A deficit can be financed by reserves.

Depreciation

An annual charge made in the Council's revenue account reflecting the reduction in value of an asset caused by the day to day operation of that asset.

Expected Rate of Return on Assets (Pensions)

The expected increase in the value of pension fund assets, based on valuations and long-term expected returns as at the start of the accounting period.

Existing Use Value

This is a method of valuing property that achieves a valuation based on the current use of the asset.

Fair Value

A methodology used to determine the value of Council assets. For land and buildings, it is the amount that would be paid for an asset in its existing use or, where this is not available, the cost of replacing the asset in its existing use.

Financial Instruments

A financial instrument is a contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another. Financial Instruments include trade debtors and trade creditors, and treasury management transactions, for example, cash deposits, swaps, and embedded derivatives.

General Fund

The main revenue fund of the Council which contains the income and expenditure of all services provided by the Borough Council. The General Fund Balance represents the Council's minimum reserve balance to cover emergency expenditure.

Gross Book Value (GBV)

The GBV of a fixed asset is the value of the asset before depreciation has been applied.

Historic Cost

The historic cost of an asset is deemed to be the carrying amount of an asset as at 1 April 2007 (the date the revaluation reserve was created) or at the date of acquisition, whichever date is the later, and adjusted for subsequent depreciation or impairment (if applicable).

IFRS

International Financial Reporting Standards

Impairment Loss

A significant decline in the value of an asset that is specific to that asset which is caused through deterioration rather than a reduction in market value of the asset.

Interest Cost (Pensions)

Increase in present value of pension benefit obligations, which arise because the benefits are one year closer to payment.

Market Value

The Market Value of an asset is the value that could be achieved if the asset were offered for sale with no restrictions that could affect its value.

National Non-Domestic Rates (NDR)

Tax charged on the rateable value of non-domestic properties (business properties). The rate of tax is set by the Government. The proceeds are pooled nationally and are redistributed on the basis of a fixed amount per head of population.

Net Book Value

The value of an asset, less the depreciation that has been applied to the asset since its purchase or revaluation.

Net Realisable Value

The existing use value of an asset, less any additional costs likely to be incurred to bring the asset into use.

Non-Current Assets

Tangible and intangible assets that yield benefits to the authority for a period of more than one year, for example, land and buildings.

Past Service Cost

The increase in the present value of pension benefits for employee service before the year of account, which result in the current period from the introduction of, or changes to, post-employment benefits. Past service cost may either be positive (where benefits are introduced or improved) or negative (where existing benefits are reduced).

GLOSSARY OF TERMS

Precept

The levy (demand) made by the County Council, Parish and Town Councils, on the District Council's Collection Fund for their net expenditure requirements.

Present value of defined benefit obligation

The value, in today's money, of expected future payments required to settle the pension obligation resulting from employee service.

Provisions

Amounts set aside to meet liabilities or losses which are likely to occur, or certain to occur in the future, but where the exact amounts and/or dates are uncertain.

Reserves

Amounts set aside to meet planned future capital or revenue expenditure, particularly projects.

Revenue Expenditure

Day to day income and expenditure, relating to the provision of the Council's services.

Revaluation Reserve

An unusable reserve, that represents the amount by which the Council's assets have been revalued since April 2007.

Revenue Support Grant (RSG)

A general government grant in support of local authority expenditure. The grant is calculated by Central Government and is based on the relative needs of the district.

Settlement (Pension)

Settlement occurs when the council enters into a transaction that eliminates all further obligation for part or all of the benefits provided under a defined benefit pension, for example, when a lump-sum cash payment is made to, or on behalf of, participants in exchange for their rights to receive specified post-employment benefits.

Surplus

A surplus occurs where income exceeds expenditure. In some cases, a surplus will be transferred to an appropriate reserve.

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Enquiries to: Lydia Morrison
Direct line: 02392 446501
Email: Lydia.morrison@easthants.gov.uk
Date: 29 July 2020

Dear Sir

HAVANT BOROUGH COUNCIL: LETTER OF REPRESENTATION 2018/19

This letter of representation is provided in connection with your audit of the consolidated and council financial statements of Havant Borough Council (“the Group and Council”) for the year ended 31 March 2019. We recognise that obtaining representations from us concerning the information contained within this letter is a significant procedure in enabling you to form an opinion as to whether the consolidated and council financial statements give a true and fair view of the Group and Council financial position of Havant Borough Council as of 31 March 2019 and of its financial performance and its cash flows for the year ended in accordance with CIPFA LASAAC Code of Practice on Local Authority Accounting the United Kingdom 2018/19 for the Group and Council.

We understand that the purpose of your audit of our financial statements is to express an opinion thereon and that your audit was conducted in accordance with International Standards on Auditing (UK and Ireland), which involves an examination of the accounting system, internal control and related data to the extent you considered necessary in the circumstances, and it is not designed to identify – nor necessarily be expected to disclose – all fraud, shortages, errors and other irregularities, should any exist.

Accordingly, we make the following representations, which are true to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

A. Financial Statements and Financial Records

1. We have fulfilled our responsibilities, under the relevant statutory authorities, for the preparation of the financial statements in accordance with the Accounts and Audit Regulations 2015 and CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 for the Group and Council.
2. We acknowledge, as members of management of the Group and Council, our responsibility for the fair presentation of the consolidated and council financial statements. We believe the consolidated and council financial statements referred to above give a true and fair view of the financial position, financial performance and cash flows of the Group and Council in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19, and are free of

material misstatements, including omissions. We have approved the consolidated group and financial statements.

3. The significant accounting policies adopted in the preparation of the Group and financial statements are appropriately described in the Group and Council financial statements.
4. As members of management of the Group and Council, we believe that the Group and Council has a system of internal controls adequate to enable the preparation of accurate financial statements in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 for the Group and Council that are free from material misstatement, whether due to fraud or error.
5. We believe that the effects of any unadjusted audit differences, summarised in the accompanying schedule, accumulated by you during the current audit and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. We have not corrected these differences identified by and brought to the attention from the auditor because they were not material and did not affect the General Fund and therefore there was no impact on the financial statements.

B. Non-compliance with law and regulations, including fraud

1. We acknowledge that we are responsible to determine that the Group and Council's activities are conducted in accordance with the law and regulations and that we are responsible to identify and address non-compliance with applicable laws and regulations, including fraud.
2. We acknowledge that we are responsible for the design, implementation and maintenance of internal controls to prevent and detect fraud.
3. We have disclosed to you the results of our assessment of risk that the consolidated and council financial statements may be materially misstated as a result of fraud.
4. We have disclosed to you, and provided you full access to information and any internal investigations relating to, all instances of identified or suspected non-compliance with law and regulations, including fraud, known to us that may have affected the Group or Council (regardless of the source or form and including, without limitation, allegations by "whistleblowers") including non-compliance matters:
 - Involving financial statements;
 - Related laws and regulations that have a direct effect on the determination of material amounts and disclosures in the consolidated or Council's financial statements;
 - Related to laws and regulations that have an indirect effect on amounts and disclosures in the financial statements, but compliance with which may be fundamental to the operations of the Group or Council's activities, its ability to continue to operate, or to avoid material penalties;
 - Involving management, or employees who have significant roles in internal controls, or others; or
 - In relation to any allegation of fraud, suspected fraud or other non-compliance with laws and regulations communicated by employees, former employees, analysts, regulators or others.

C. Information Provided and Completeness of Information and Transactions

1. We have provided you with:

- Access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
 - Additional information that you have requested from us for the purpose of the audit; and
 - Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
2. All material transactions have been recorded in the accounting records and are reflected in the consolidated and Council financial statements.
 3. We have made available to you all minutes of the meetings of the Council and committees (or summaries of actions of recent meetings for which minutes have not yet been prepared) held through the year to the most recent meetings on the following date: 28 January 2020 (last held Governance, Audit & Finance Board).
 4. We can confirm the completeness of information provided regarding the identification of related parties. We have disclosed to you the identity of the Group and Council's related parties and all related party relationships and transactions of which we are aware, including sales, purchases, loans transfers of assets, liabilities and services, leasing arrangements, guarantees, non-monetary transactions and transactions for no consideration for the period ended, as well as related balances due to or from such parties at the year end. These transactions have been appropriately accounted for and disclosed in the consolidated and Council finance statements
 5. We believe that the significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable.
 6. We have disclosed to you, and the Group and Council has complied with, all aspects of contractual agreements that could have a material effect on the consolidated and Council financial statements in the event of non-compliance, including all covenants, conditions or other requirements of all outstanding debt.

D. Liabilities and Contingencies

1. All liabilities and contingencies, including those associated with guarantees, whether written or oral, have been disclosed to you and are appropriately reflected in the consolidated and Council financial statements.
2. We have informed you of all outstanding and possible litigation claims, whether or not they have been discussed with legal counsel.
3. We have recorded and/or disclosed, as appropriate, all liabilities related litigations and claims, both actual and contingent, and have disclosed in the consolidated and Council financial statements all guarantees that we have given to third parties.

E. Subsequent Events

1. Other than events described in Note 42 to the consolidated and Council financial statements, there have been no events, including events related to COVID-19 pandemic, subsequent to the period end which require adjustment of or disclosure in the consolidated and Council financial statements or notes thereto.

F. Group audits

1. There are no significant restrictions on our ability to distribute the retained profits of the Group because of statutory, contractual, exchange control or other restrictions other than those indicated in the Group financial statements.
2. Necessary adjustments have been made to eliminate all material intra-group unrealised profits on transactions amongst council, subsidiary undertakings and associated undertakings.

G. Other information

1. We acknowledge our responsibility for the preparation of the other information. The other information comprises the Narrative Statement and the Annual Governance Statement.
2. We confirm that the content contained within the other information is consistent with the consolidated and Council financial statements.

H. Comparative information – corresponding financial information

1. In closing the accounts for 2018/19 the Council discovered that the Property, Plant and Equipment assets had not had revised valuations for the financial years 2017/18 and 2018/19 processed. These all related to Other Land and Building assets. All valuations have now been processed in 2018/19 but, as a result, the prior year comparator figures, in relation to PPE and related notes have had to be amended by £3.138M
2. The comparative amounts have been correctly restated to reflect the above matter and appropriate note disclosure of this restatement has also been included in the current year's consolidated and Council financial statements.

I. Going concern

1. Note 42 to the consolidated and Council financial statements discloses all the matters of which we are aware that are relevant to the Company's ability to continue as a going concern, including significant conditions and events, our plans for future action, and the feasibility of those plans.

J. Ownership of Assets

1. Except for assets capitalised under finance leases, the Group and Council has satisfactory title to all assets appearing in the balance sheet, and there are no liens or encumbrances on the Group and Council's assets, nor has any asset been pledged as collateral. All assets to which the Group and Council has satisfactory title appear in the balance sheet.
2. All agreements and options to buy back assets previously sold have been properly recorded and adequately disclosed in the consolidated and Council financial statements.
3. There are no formal or informal compensating balance arrangements with any of our cash and investment accounts.

K. Reserves

1. We have properly recorded or disclosed in the consolidated and Council financial statements the useable and unusable reserves.

L. Use of the Work of a Specialist – Actuary

1. We agree with the findings of the specialists that we engaged to evaluate the valuation of the net pension liability and have adequately considered the qualifications of the specialists in determining the amounts and disclosures included in the consolidated and Council financial statements and the underlying accounting records. We did not give or cause any instructions to be given to the specialists with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an effect on the independence or objectivity of the specialists.

M. Use of the Work of a Specialist – Property valuers

1. We agree with the findings of the specialists that we engaged to evaluate the valuation of investment property and operational land and buildings and have adequately considered the qualifications of the specialists in determining the amounts and disclosures included in the consolidated and Council financial statements and the underlying accounting records. We did not give or cause any instructions to be given to the specialists with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an effect on the independence or objectivity of the specialists.

N. Estimates

NNDR appeals and other provisions estimate

1. We believe that the measurement processes, including related assumptions and models, used to determine the accounting estimates have been consistently applied and is appropriate in the context of CIPFA LASAAC Code of Practice of Local Authority Accounting in the United Kingdom 2018/19.
2. We confirm that the significant assumptions used in making the estimate of provisions (including the NNDR appeals provision) appropriately reflect our intent and ability to carry out providing services on behalf of the entity.
3. We confirm that the disclosures made in the consolidated and Council financial statements with respect to the accounting estimates are complete, including the effects of COVID-19 pandemic and made in accordance with CIPFA LASAAC Code of Practice of Local Authority Accounting in the United Kingdom 2018/19.
4. We confirm that no adjustments are required to the accounting estimates and disclosures in the consolidated and council financial statements due to subsequent events, including due to the COVID-19 pandemic.

Valuation of investment property and operational land and buildings estimate

1. We believe that the measurement processes, including related assumptions and models, used to determine the accounting estimates have been consistently applied and is appropriate in the context of CIPFA Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.
2. We confirm that the significant assumptions used in making the estimate of the valuation of investment property and operational land and buildings appropriately reflect our intent and ability to use and maintain these assets on behalf of the entity.

3. We confirm that the disclosures made in the consolidated and Council financial statements with respect to the accounting estimates are complete, including the effects of COVID-19 pandemic and made in accordance with CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.
4. We confirm that no adjustments are required to the accounting estimate and disclosures in the consolidated and Council financial statements due to subsequent events, including due to the COVID-19 pandemic.

Pensions Valuation Estimate

1. We believe that the measurement processes, including related assumptions and models, used to determine the accounting estimates have been consistently applied and is appropriate in the context of CIPFA LASAAC Code of Practice of Local Authority Accounting in the United Kingdom 2018/19.
2. We confirm that the significant assumptions used in making the estimate of pensions valuation appropriately reflect our intent and ability to carry out providing services on behalf of the entity.
3. We confirm that the disclosures made in the consolidated and Council financial statements with respect to the accounting estimates are complete, including the effects of the COVID-19 pandemic and made in accordance with CIPFA LASAAC Code of Practice of Local Authority Accounting in the United Kingdom 2018/19.
4. We confirm that no adjustments are required to the accounting estimate and disclosures in the consolidated and Council financial statements due to subsequent events, including due to the COVID-19 pandemic.

O. Retirement benefits

1. On the basis of the process established by us and having made appropriate enquiries, we are satisfied that the actuarial assumptions underlying the scheme liabilities are consistent with our knowledge of the business. All significant retirement benefits and all settlements and curtailments have been identified and properly accounted for.

Yours faithfully,

Lydia Morrison – Chief Financial Officer (s151 Officer)

Councillor A Briggs – Chair of the Governance, Audit and Finance Board.

NON-EXEMPT

HAVANT BOROUGH COUNCIL

Governance, Audit & Finance Board

29th July 2020

**LIMITED ASSURANCE AUDIT REPORTS 2019-20: REVIEW AND
SUGGESTIONS FOR IMPROVEMENT
Corporate Governance Board**

FOR NOTING

Portfolio: Finance, Cllr Mark Inkster

**Head of Service: Lydia Morrison, Director for Corporate Services and
S151 Officer**

Key Decision: No

1.0 Purpose of Report

- 1.1 This report is submitted to Governance, Audit & Finance Board for noting, alongside the end of year internal audit report for 2019-20 prepared by the Southern Internal Audit Partnership.
- 1.2 This report is submitted on behalf of Corporate Governance Board and Executive Board, who have reviewed the audit reports carried out in 2019-20 which received a rating of limited or no assurance, in order to establish the necessary course of action to ensure continuous improvement in governance.

2.0 Recommendation

- 2.1 Governance, Audit & Finance Board is recommended to note the findings and common themes of the limited assurance audits carried out in 2019-20, as summarised in this report.
- 2.2 Governance, Audit & Finance Board is recommended to note the new procedure as recommended at option 2 paragraph 6.2 for resolving audit reports with limited or no assurance, which focuses on ensuring clear accountability and communicating the consequences of inaction to those involved in the internal audit process.

3 Executive Summary

- 3.1 Internal audit, as an important part of the governance framework of both Councils, is overseen by Corporate Governance Board, which provides assurance to Executive Board.
- 3.2 During 2019-20, several audit reports have been given a rating of limited or no assurance. These reports share common themes of poor or inadequate record keeping, limited understanding of budgetary matters (e.g. reconciliation), and the absence of the necessary written policies and procedures; the findings are detailed further in Section 5 of this report.
- 3.3 It is the view of Corporate Governance Board that this number of reports with limited or no assurance is concerning and that action should be taken to ensure that the weaknesses identified by internal audit are resolved and that the internal audit function continues to be effective and worthwhile.
- 3.4 Whilst the number of limited or no assurance reports is disappointing the internal audit programme for 2019/20 was set to target those areas where management were aware of potential weaknesses, in particular around those services provided by Capita. There has already been progress made against the identified management actions as the services successfully moved back in house on 1 April 2020, despite the additional work that has been required with respect to the Covid-19 pandemic response and recovery.

4 Additional Budgetary Implications

- 4.1 None.

5 Background and relationship to the Corporate Strategy and Directorate Business Plan/s

- 5.1 Internal audit is an important part of the governance framework which is set out in the Councils' Local Code of Corporate Governance. During each financial year, the internal audit service carries out audits of various services and functions provided by the authority. The areas to be audited are outlined in the internal audit plan for the year ahead and based on direction from the Councils' management team.
- 5.2 Each audit is given a rating of assurance based on the findings of the report: substantial, adequate, limited or no assurance. The report also articulates the necessary management actions to resolve the weaknesses identified in the framework of internal control, which are agreed by the relevant Team Leader/Head of Service before the report is finalised.
- 5.3 The internal audit function is overseen by Corporate Governance Board, which meets quarterly to review the outstanding management actions and any other issues of concern.

5.4 At the Extraordinary Corporate Governance Board meeting on 28th May 2020 it was noted that there were eight internal audit reports carried out in 2019-20 that received limited or no assurance.

5.5 Corporate Governance Board has reviewed these limited assurance reports to identify any common themes and establish how best to resolve the issues noted in the reports.

5.6 A 'limited assurance' rating is defined by the Southern Internal Audit Partnership as 'Significant weakness identified in the framework of internal control and / or compliance with the control framework which could place the achievement of system objectives at risk'.

5.7 Across the eight reports with limited or no assurance, the following themes have been observed:

- Common themes include inaccurate or inadequate record keeping, limited understanding of and importance given to budgetary matters (particularly reconciliation), and a lack of written policies and procedures.
- In particular, the three audit reports that involve public-facing regulatory services (Fly Tipping, Food Safety and Animal Welfare Licensing) share a lack of consistency with record keeping and procedures, with several errors or inconsistencies noted in the auditor's sample of records. The poor audit result given to these two services suggests that where services are not shared across both Councils, they could still benefit from peer review and alignment of procedures, even if not becoming formally or fully shared. This would be useful to explore as part of the ongoing Transformation work.
- Issues noted in the other limited assurance reports (Human Resources, Treasury Management, Information Governance and Lease Income) are more diverse than the three Neighbourhood Support reports, but still share similar themes.
- Financial weaknesses are identified in several reports, particularly regarding debt recovery (Lease Income) and reconciliation of income (Animal Welfare Licensing, Lease Income). This will be a key opportunity for improvement following the transition of the Finance services back inhouse.
- The Treasury Management audit is particularly notable, having received a result of no assurance. The auditor found that there had been several egregious breaches of the written policies for the service (though as noted below, the service has since returned inhouse in order to rectify these issues).
- The role of performance management is raised in several of the limited assurance audit reports – at least two of the services reviewed do not

currently report any performance indicators corporately and it is also apparent that both poor record keeping and staff non-compliance with written policies and procedures are common weaknesses. This will be partially addressed via the upcoming overhaul of the Performance Management Framework and with planned Organisational Development interventions as part of the Transformation Programme, as well as the management actions identified in the individual audits. Where services do not have established performance metrics this will be picked up by the work on performance.

5.8 A number of the reports (Human Resources, Accounts Receivable and Treasury Management) relate to services that had been provided by Capita under the 5 Councils Contract and have since returned back in house. The issues observed by internal audit in their reports were already known to the Councils' management team, hence the return in house, and work to improve the systems and processes involved with these two services has already commenced. It should be noted that Accounts Receivable still remains within Capita. Corporate Governance Board does not think it necessary to intervene in the issues identified in these reports that are no longer with Capita at this stage, but will continue to monitor the completion of the management actions to ensure that the in house services fully rectify the issues observed in the reports.

5.9 All services have agreed management actions to address the issues raised. The majority of these actions have deadlines over the next few months and will therefore be reviewed at the next quarterly meeting of Corporate Governance Board if not yet completed.

5.10 The HBC Food Safety audit is of particular concern as 10 management actions were due to be completed by the end of March but no updates have yet been provided for any of these.

5.11 The Corporate Governance Board acknowledges that during the Covid-19 major incident, planned improvements to service may have been delayed while resources are diverted, but is of the opinion that the actions previously agreed should still be carried out wherever possible, given that the importance of the system of internal control is increased rather than decreased in times of crisis.

6 Options considered and reasons for the recommendation

6.1 **Option 1:** do nothing ('nothing' in this context means nothing over and above the existing governance arrangements for internal audit, which will continue as usual). The management actions arising from the 2019-20 limited assurance reports will continue to be monitored as usual by the internal audit service, which reports to Corporate Governance Board on the outstanding actions on a quarterly basis. However, it has proven difficult for the Board to ensure that outstanding actions are closed, particularly where actions concern more than one service or an external service provider (as accountability for closing the action is less clearly

specified in these cases). The concern with this option, therefore, is that management actions identified in the limited assurance reports may not be completed for several months or years, meaning that the risks outlined in the audit report will not be appropriately mitigated.

6.2 Option 2: in consultation with Internal Audit and Executive Board the procedure below has been agreed for monitoring and resolving Internal Audit:

- Requiring all services receiving limited assurance ratings to report to Executive Board and/or the relevant Portfolio Holder as soon as possible after the audit report is finalised to ensure that they understand the importance of resolving the issues identified in the audit and that any obstructions to completing the management actions can be overcome. Executive Board to be kept regularly updated of progress against management actions.
- Ensuring that services receiving limited assurance ratings are always audited again in the following financial year (and that Heads of Service are aware of this), therefore setting an expectation for improvement within that timeframe. The 'follow up' audit will be an ideal opportunity for services to demonstrate the changes made and should ensure that they remain accountable for completing the actions that they have committed to.
- Requiring services who receive more than one limited assurance rating in a row to report to Governance, Audit and Finance Board to explain why the issues have persisted and what will be done to rectify them and to provide regular updates on management actions to Governance, Audit and Finance Board
- Improving the recording and communications of management actions (particularly around where accountability lies for closing the actions, in cases where more than one service or service provider is involved).

7 Resource Implications

7.1 Financial Implications - none

7.2 Human Resources Implications - none

7.3 Information Governance Implications - none

7.4 Other Resource Implication - none

8 Legal Implications

8.1 Implementing the recommendation detailed above will help improve the system of internal control and the efficacy of the governance framework.

9 Risks

9.1 Implementing the recommendation detailed above will help improve the system of internal control and the efficacy of the governance framework, which will in turn reduce the risks detailed in the audit reports.

10 Consultation

10.1 Informal consultation with internal audit has taken place in the context of discussions at Corporate Governance Board meetings. The recommended option above may require a more formal consultation to take place and potentially a review/renegotiation of the internal audit service provided.

11 Communication

11.1 Communication is to be improved around the purpose and function of internal audit, the responsibilities of Heads of Service to resolve management actions, and the procedure for limited assurance reports – exact details to be finalised following agreement with internal audit on how to proceed.

12 Appendices: *None*

13 Background Papers: *Internal Audit Annual Opinion Audit Committee papers 29th July 2020*

Agreed and signed off by:

Monitoring Officer: David Brown 8/6/20

S151 Officer: 10/7/20

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NON EXEMPT

HAVANT BOROUGH COUNCIL

GOVERNANCE, AUDIT & FINANCE BOARD

29 July 2020

STATEMENT OF ACCOUNTS: ACCOUNTING POLICIES 2019/20

FOR DECISION

Cabinet Lead: Finance Cllr Inkster

Head of Service: Head of Finance

Key Decision: No

1.0 Purpose of Report

- 1.1. This report presents the Accounting Policies that will be used in the preparation of the 2019/20 Statement of Accounts and summarises the changes from 2018/19 introduced as a result of the amendments to the Code of Practice on Local Authority Accounting 2019/20 (the Code) or as part of the Council's annual review process.
- 1.2. The report also explains the requirement to include notes on the critical judgements used in the production of the Statement of Accounts which have been presented alongside the Accounting Policies in line with best practice.

2.0 Recommendation

- 2.1. Governance, Audit & Finance Board:
 - a) Approves the proposed Accounting Policies to be adopted in completing the 2019/20 Statement of Accounts
 - b) Note the critical judgements

3.0 Executive Summary

Accounting Policies

- 3.1. The Council's Accounting Policies are the specific principles, conventions, rules and practices that are applied in the production and presentation of the annual Statement of Accounts. These policies have to be disclosed as a note to the annual accounts, a copy of the policies can be found at Appendix A.
- 3.2. The Code of Practice on Local Authority Accounting 2019/20 has been examined and accounting policies have been amended/adjusted as necessary.

- 3.3. In applying the accounting policies set out in Appendix A the Council will need to make certain judgements about complex transactions or those involving uncertainty about future events. The external auditors (Ernst & Young) are aware of these issues and are providing technical advice.
- 3.4. The changes introduced by the 2019/20 Code that will be relevant to the financial statements of the Council are as follows:
- a) IFRS 16 Leases will require local authorities that are lessees to recognise most leases on their balance sheets as right-of-use assets with corresponding lease liabilities (there is recognition for low-value and short-term leases). CIPFA/LASAAC have deferred implementation of IFRS16 for local government to 1 April 2021.

Critical Judgements

- 3.5. In line with International Finance Reporting Standards (IFRS) and the Code the Council is required to disclose those judgements that management have made in the process of applying the Council's accounting policies that have the most significant effect on the amounts recognised in the financial statements, these are shown in Appendix B. Judgements taken include for example, which properties should be classed as investment property.

4.0 Additional Budgetary Implications

- 4.1. None.

5.0 Background and relationship to the Corporate Strategy and Directorate Business Plan/s

- 5.1 The Statement of Accounts aim to provide an understanding of the overarching financial position of the Council, assurance that the financial position of the Council is robust and confidence that the public funds entrusted to the Council have been accounted for appropriately.
- 5.2 In addition, the Statement of Accounts provide a full narrative statement structured to include:
- a. *Performance against the Corporate Strategy*
 - b. *Overall financial position*
 - c. *Key facts about Havant Borough Council*
 - d. *Financial performance and capital summary*
 - e. *Medium Term Financial Strategy*
 - f. *Explanation of Core Statements*
 - g. *The Council's responsibilities and certification of Accounts*
- 5.3 The Council restructured its directorates during 2019/20 and therefore the presentation of the Statement of Accounts for 2019/20 has been changed to reflect the new structure. The 2018/19 accounts have been re-stated to reflect those changes.

6.0 Options considered and reasons for the recommendation

- 6.1. It is recommended (in line with best practice) by the Council's external auditors that the proposed accounting policies to be used to prepare the Council's 2019/20 Statement of Accounts are approved by the Council's audit committee (Governance, Audit & Finance Board) before the accounting statements are prepared.

Future events

- 6.2. National issues as highlighted below may have a bearing on the preparation of the accounts:
- a) There is a high degree of uncertainty in respect of future levels of funding for local government. The current four year settlement gave certainty until 2019/20 and due to political events 2019/20 funding was rolled forward for 2020/21. The outcome of the Fair Funding Review and review of business rate retention is as yet unknown. In addition, auditors will continue to examine the going concern principle if levels of funding continue to decrease together with all major economic assumptions that form the basis of the statement of accounts
 - b) The financial impact of the United Kingdom leaving the European Union is as yet uncertain. It could be positive or negative, but it is likely to affect interest and inflation rates, labour costs and property and rental values. This situation is being carefully monitored in line with other national events and is a standing item for discussion with the auditors and internal valuers.
 - c) The financial impact of the Covid-19 pandemic which emerged towards the end of the financial year 2019-20 represents an unparalleled challenge to local authorities across the nation. In accordance with our business continuity plans, Havant Borough Council acted quickly to ensure critical services continued to function and support for our vulnerable residents was in place. There will be significant financial pressures placed on the authority as a result of the pandemic, the majority of these pressures will be felt in the financial years 2020-21 onwards.

7.0 Resource Implications

- 7.1. Financial Implications – the accounts will be prepared according to the accounting policies approved.
- 7.2. Human Resources Implications – none
- 7.3. Information Governance Implications – none.
- 7.4. Other Resource Implication – none.

8.0 Legal Implications

- 8.1. The Statement of Accounts will be prepared in accordance with the requirements of the Chartered Institute of Public Financial Accounting (CIPFA).

9.0 Risks

9.1. The Council needs to have in place accounting policies that meet the requirements of the relevant local government accounting code of practice. Failure to do so may result in the misreporting of the Council's finances which could adversely affect decision making and cause the external auditor to qualify the accounts.

10.0 Consultation

10.1. Consultation has taken place with the Council's External Auditors, Ernst & Young

11.0 Communication

11.1. The accounting policies will be incorporated into the Statement of Accounts.

12.0 Appendices

Appendix A – Accounting Policies
Appendix B – Critical Judgements

13.0 Background Papers: none.

Monitoring Officer: 17/07/20

S151 Officer: 17/07/20

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NOTE 1. ACCOUNTING POLICIES

Going Concern

The concept of a going concern assumes that an authority, its functions and services will continue in operational existence for the foreseeable future. Where this is not the case, particular care will be needed in the valuation of assets, as inventories and property, plant and equipment may not be realisable at their book values and provisions may be needed for closure costs or redundancies. An inability to apply the going concern concept can have a fundamental impact on the financial statements.

Accounts drawn up under the Code assume that a local authority's services will continue to operate for the foreseeable future. This assumption is made because local authorities carry out functions essential to the local community and are themselves revenue-raising bodies (with limits on their revenue-raising powers arising only at the discretion of Central Government). If an authority was in financial difficulty, the prospects are thus that alternative arrangements might be made by Central Government either for the continuation of the services it provides or for assistance with the recovery of a deficit over more than one financial year.

1. General Principles

The Statement of Accounts summarises the Council's transactions for the 2019/20 financial year and its position at the year-end of 31 March 2020. The Council is required to prepare an annual Statement of Accounts by the Accounts and Audit Regulations 2015 which those Regulations require to be prepared in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2019/20, supported by International Financial Reporting Standards (IFRS). The accounting convention adopted in the Statement of Accounts is principally historical cost, modified by the revaluation of certain categories of non-current assets and financial instruments.

2. Accruals of Income and Expenditure

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

- 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. However for low individual value annual transactions (e.g. annual payment for beach hut licences) this is recognised on a cash basis.
- The new revenue recognition standard in IFRS 15 introduces a single model for income with prescribed steps to identify when control of goods or services passes to the customer together with associated revenue in the contract between the parties. An assessment was made of the income streams and the effect of IFRS 15 on the accounts which was found to be immaterial.
- 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. Inventories below £10,000 are considered immaterial and are expensed.
- 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 is accounted for as income 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 written down and a charge made to revenue for the income that might not be collected.

3. Accounting for Council Tax and Non Domestic Rates

Appendix A

The Council collects income from payers of Council Tax and Non-Domestic Ratepayers, but only part of the income relates to this Council, the balance being collected on behalf of other major precepting authorities, including the Government. The amounts of debtors, adjustments for doubtful debts, overpayment creditors and receipts in advance that relate to the precepting authorities are shown as a single net debtor or creditor in the balance sheet. The element of the Collection Fund due to preceptors is held as part of the Short Term Creditors balance. Annual changes in the amounts held for preceptors are shown as part of financing activities in the Cash Flow Statement.

The amounts legally credited to the General Fund are those estimated before the start of the financial year, including distributions of estimated surplus, or contributions towards estimated deficits. In accounting terms, however, the Council's share of the collectable debit (including adjustments to allowances for doubtful debts and appeals) are credited to the Comprehensive Income and Expenditure Statement. The difference between the cumulative amounts for statutory and accounting purposes forms the Collection Fund Adjustment Account (an unusable reserve) and the annual adjustment forms part of the accounting and financing adjustments.

4. Cash and Cash Equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are investments that mature in no more than ninety days from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value. In the Cash Flow Statement, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and form an integral part of the Council's cash management.

5. Prior Period Adjustments, Changes in Accounting Policies and Estimates and Errors

Prior period adjustments may arise as a result of a change in accounting policies or to correct a material error. Changes in accounting estimates are accounted for prospectively, i.e. in the current and future years affected by the change and do not give rise to a prior period adjustment. Changes in accounting policies are only made when required by proper accounting practices or the change provides more reliable or relevant information about the effect of transactions, other events and conditions on the Council's financial position or financial performance. Where a change is made, it is applied retrospectively (unless stated otherwise) by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied.

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

6. Charges to Revenue for Non-Current Assets

Services are debited with the following amounts to record the cost of holding non-current assets during the year:

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

The Council is not required to raise council tax to cover depreciation, revaluation and impairment losses or amortisations. However, it is required to make an annual provision from revenue to contribute towards the reduction in its overall borrowing requirement. This provision, known as Minimum Revenue Provision (MRP), is equal to an amount calculated on a prudent basis determined by the Council in accordance with statutory guidance. Depreciation, revaluation and impairment losses and amortisations 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.

7. 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 wages and salaries, paid annual leave and paid sick leave, bonuses and non-monetary benefits (e.g.

Appendix A

cars) for current employees and are recognised as an expense for services in the year in which employees render service to the Council. An accrual is made for the cost of holiday entitlements (or any form of leave, e.g. time off in lieu) earned by employees but not taken before the year-end which employees can carry forward into the next financial year. The accrual is made at the wage and salary rates applicable in the following accounting year, being the period in which the employee takes the benefit. The accrual is charged to Surplus or Deficit on the Provision of Services, but then reversed out through the Movement in Reserves Statement so that these benefits are charged to the General Fund in the financial year in which payment is made.

Termination Benefits

Termination benefits are amounts payable as a result of a decision by the Council to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy and are charged on an accruals basis to the relevant service cost line in the CI&ES 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. Where termination benefits involve the enhancement of pensions, statutory provisions require the General Fund balance to be charged with the amount payable by the Council to the pension fund or pensioner in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, appropriations are required to and from the Pensions Reserve to remove the notional debits and credits for pension enhancement termination 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.

Post Employment Benefits

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

The Local Government Scheme is accounted for as a defined benefits scheme:

- The liabilities of the Hampshire pension fund attributable to the Council are included in the Balance Sheet on an actuarial basis using the projected unit method - i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc. and projections of projected earnings for current employees.
- Liabilities are discounted to their value at current prices, using a discount rate based on the indicative rate of return on high quality corporate bond chosen by the Fund's Actuary.
- The assets of the Hampshire pension fund attributable to the Council are included in the Balance Sheet at their fair value:
 - quoted securities - current bid price
 - unquoted securities - professional estimate
 - unitised securities - current bid price
 - property - market value
- The change in the net pensions liability is analysed into the following components:
 - current service cost - the increase in liabilities as a result of years of service earned this year - allocated in the CI&ES 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 CI&ES as part of the cost of other Operating Expenses
 - net interest on the defined benefit liability, i.e. net interest expense for the Council – the change during the period in the net defined benefit liability that arises from the passage of time charged to the financing and investment income line of the Comprehensive Income and Expenditure Statement – this is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the defined benefit liability at the beginning of the period – taking account of any changes in the net defined benefit liability during the period as a result of contribution and benefit payments.
 - remeasurements comprising:

- the return on plan assets, excluding amounts included in net interest on the net defined liability, charged to the Pension Reserve as Other Comprehensive Income and Expenditure
- actuarial gains or losses - changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions - charged to the Pensions Reserve as Other Comprehensive Income and Expenditure.
- 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 balance to be charged with the amount payable by the Council to the pension fund or directly to pensioners in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, this means that there are appropriations to and from the Pensions Reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund and 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 of the decision to make the award and accounted for using the same policies as are applied to the Local Government Pension Scheme.

8. Events after the Reporting Period

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

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

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

9. Fair Values

The Council measures some of its non-financial assets (surplus assets and investment properties), and its available for sale financial asset, at fair value at each reporting date. The Council also discloses fair values for financial assets and liabilities categorised as loans and receivables. Fair value is the price that would be received to sell an asset or transfer a liability in an orderly transaction at the year end. The fair value measurement assumes that the transaction 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.

The Council measures the asset or liability using the assumptions that market participants would use when pricing the asset or liability, assuming that they act in their economic best interest.

When measuring the fair value the Council takes into account the market participants' ability to generate economic benefits by using the asset or liability in its highest or best use, or by selling it to another party that would use the asset or liability for 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 observable inputs and minimising the use of unobservable inputs.

Appendix A

Inputs to the valuation techniques for assets and liabilities that are measured or disclosed in the financial statements are categorised within the fair value hierarchy, as follows:

- | | |
|---------|---|
| Level 1 | Quoted prices (unadjusted) in active markets for identical assets or liabilities that the Council can access at the year end. |
| Level 2 | Inputs, other than quoted prices within Level 1, that are observable for the asset or liability, either directly or indirectly. |
| Level 3 | Unobservable inputs for the asset or liability. |

10. Financial Instruments

A financial instrument is a contract that gives rise to a financial asset of one entity and a financial liability or equity instrument in another entity. Non-exchange transactions, such as those relating to taxes, benefits, and government grants, do not give rise to financial instruments.

Financial Liabilities

Financial liabilities are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and initially measured at fair value and carried at their amortised cost. Annual charges to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. The effective interest rate is the rate that exactly discounts estimated future cash payments over the life of the instrument to the amount at which it was originally recognised.

This means that the amount presented in the Balance Sheet is the outstanding principal repayable (plus accrued interest) and interest charged to the Comprehensive Income and Expenditure Statement is the amount payable for the year according to the loan agreement.

Liabilities include trade payables. It has been assessed that the carrying amount in the Balance Sheet is a proxy for the fair value of those liabilities.

Financial Assets

Financial assets are classified based on a classification and measurement approach that reflects the business model for holding the financial assets and their cash flow characteristics. There are three main classes of financial assets measured at:

- Amortised cost
- Fair value through profit or loss (FVPL)
- Fair value through other comprehensive income (FVOCI)

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

Financial Assets Measured at Amortised Cost

Financial assets measured at amortised cost are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value. They are then measured at their amortised cost. Annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For most of the loans that the Council has made,

Appendix A

this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the Comprehensive Income and Expenditure Statement is the amount receivable for the year in the loan agreement.

However, the Council has from time to time made a number of loans to voluntary organisations at less than market rates (soft loans). When soft loans are made, a loss is recorded in the Comprehensive Income and Expenditure Statement (debited to the appropriate service) for the present value of the interest that will be foregone over the life of the instrument, resulting in a lower amortised cost than the outstanding principal.

Interest is credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement at a marginally higher effective rate of interest than the rate receivable from the voluntary organisations, with the difference serving to increase the amortised cost of the loan in the Balance Sheet. Statutory provisions require that the impact of soft loans on the General Fund Balance is the interest receivable for the financial year – the reconciliation of amounts debited and credited to the Comprehensive Income and Expenditure Statement to the net gain required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

Any gains and losses that arise on the de-recognition of an asset are credited/debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

Expected Credit Loss Model

The Council recognises expected credit losses on all of its financial assets held at amortised cost, either on a 12-month or lifetime basis. The expected credit loss model also applies to lease receivables and contract assets. Lifetime losses are recognised for trade receivables (debtors) held by the Council.

Impairment losses are calculated to reflect the expectation that the future cash flows might not take place because the borrower could default on their obligations. Credit risk plays a crucial part in assessing losses. Where risk has increased substantially since an instrument was initially recognised, losses are assessed on a lifetime basis. Where risk has not increased substantially or remains low, losses are assessed on the basis of 12-month expected losses.

The Council has a substantial amount of investments and employs treasury management advisers in addition to full time professional staff. However, reasonable and verifiable information to support the measurement of lifetime losses on individual instruments is not available without undue cost or effort. Losses are mainly assessed for the portfolio on a collective basis.

Financial Assets are amalgamated into the following groups to assess risk and associated loss allowances whilst making use of a simplified approach contained in regulations.

Group 1 – Commercial investments in line with treasury management policy including counterparties that have external credit ratings of A or better. Loss allowances will be assessed on a group basis using the simplified approach of collective assessment.

Group 2 – Loans to related parties. Loss allowances for these loans are assessed on an individual basis and / or an individual borrower basis.

Group 3 – Other loans to local businesses, in support of the Council vision and objectives. Loss allowances for these loans are assessed on an individual basis and / or an individual borrower basis.

Financial Assets Measured at Fair Value through Profit or Loss

Financial assets that are measured at FVPL are recognised on the balance sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured and carried at fair value. Fair value gains and losses are recognised as they arrive in the Surplus or Deficit on the Provision of Services.

The fair value measurements of the financial assets are based on the following techniques:

- Instruments with quoted market prices – the market price
- Other instruments with fixed and determinable payments – discounted cash flow analysis

Appendix A

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

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

Any gains or losses that arise on the derecognition of the asset are credited or debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

Financial Assets Measured at Fair Value through Other Comprehensive Income

Financial assets that are measured at FVOCI are recognised on the balance sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured and carried at fair value. Fair value gains and losses are charged to the Other Comprehensive Income and Expenditure and are held in the Financial Instrument Revaluation Reserve.

Movements in amortised cost are charged to the Surplus or Deficit on the Provision of Services

Cumulative gains/losses on fair value are transferred to the Surplus or Deficit on the Provision of Services on derecognition.

11. Government Grants and Contributions

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

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

Amounts recognised as due to the Council are not credited to the CI&ES 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 liabilities. When conditions are satisfied, the grant or contribution is credited to the relevant service line (attributable revenue grants and contributions) or Taxation and Non-Specific Grant Income (non-ringfenced revenue grants and all capital grants) in the CI&ES.

Where capital grants are credited to the CI&ES, 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. Amounts in the Capital Grants Unapplied Reserve are transferred to the Capital Adjustment Account once they have been applied to fund capital expenditure.

The Council has elected to charge a Community Infrastructure Levy (CIL), charged on new builds with appropriate planning consent. The income from the levy will be used to fund various projects described as “infrastructure” in a broader sense than used for Council property. The infrastructure investment is determined in the 123 list and it is not necessarily this Council that will undertake the works. Part of the CIL income is retained to offset the cost of administration, and is accounted for as income for the Planning service. Some is also payable to parishes: this is treated as an agency service and is excluded from the Comprehensive Income and Expenditure Statement. The rest is intended for use to finance capital, and is treated as capital contributions. As it is received without conditions it is recognised immediately as capital grants and contributions income, and is then transferred to the Capital Grants Unapplied Reserve. A small proportion of the monies may be used to fund revenue expenditure.

The income from CIL is accounted for on an accruals basis and recognised immediately in the CI&ES at the commencement date of the chargeable development. Surcharges and interest received in accordance with the CIL regulations will be accounted for as if they were CIL receipts.

12. Investment Property

Investment properties are those that are used 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 production of goods or is held for sale.

Investment properties are measured initially at cost and subsequently at fair value, based on the amount at which the asset could be exchanged between knowledgeable parties at arm's-length. As a non-financial asset, investment properties are measured at highest and best use.

Properties are not depreciated but are revalued 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 CI&ES. The same treatment is applied to gains and losses on disposal.

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

13. Intangible Assets

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

Internally generated assets are capitalised where it is demonstrable that the project is technically feasible and is intended to be completed (with adequate resources being available) and that authority will be able to generate future economic benefits or deliver service potential by being able to use the asset. Costs relating to the development of computer software for internal use are capitalised where it can be measured reliably as attributable to the asset and is restricted to that incurred in the development phase. When the software is available for its intended use, these costs are amortised in equal annual amounts over the estimated useful life of the software.

Amounts capitalised include the total cost of any external products or services and labour costs directly attributable to development. Management judgement is involved in determining the appropriate internal costs to capitalise and the amounts involved. The useful life is determined by management at the time the software is acquired and brought into use and is regularly reviewed for appropriateness. For computer software licences, the useful life represents management's view of the expected period over which the Council will receive benefits from the software.

Intangible assets are measured initially at cost. The depreciable amount of an intangible asset is written down over its useful life, to the appropriate line in the Comprehensive Income and Expenditure Statement. No intangible assets are recorded with indefinite lives. An asset is tested for impairment whenever there is an indication that the asset might be impaired, and any losses are posted to the appropriate line in the Income and Expenditure Statement.

The calculated amounts for amortisation and impairment are charged to the Cost of Services in the Comprehensive Income and Expenditure Account, but they are not proper charges against the General Fund. A transfer is therefore made from the Capital Adjustment Account to the General Fund to reverse the impact.

14. Interest in Companies and Other Entities

Local authorities are required to consider all their interests and to prepare a full set of group financial statements where they have material interests in subsidiaries, associates or joint ventures. In order to assess whether the Council has interests relevant to group accounts, consideration has been given to involvement with companies, partnerships, voluntary organisations, and other public bodies to determine whether;

Appendix A

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

Consideration has been given to the relationship with all potential entities. The Council's relationship with Norse South East will be assessed. Fuller disclosures have been made in the interests in other entities note in the Core Financial Statements.

The relationship with the body disclosed is not material and therefore there is no entity where the Council's interest is such that it would give rise to the requirement to prepare group accounts.

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

15. Leases

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

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

Arrangements that do not have the legal status of a lease but convey a right to use an asset in return for payment are accounted for under this policy where fulfilment of the arrangement is dependent on the use of specific assets.

The Council as Lessee

Finance Leases

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

Lease payments are apportioned between:

- a charge for the acquisition of the interest in the property, plant or equipment – applied to write down the lease liability, and
- a finance charge (debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

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

The Authority is not required to raise council tax to cover depreciation or revaluation and impairment losses arising on leased assets. Instead, a prudent annual contribution is made from revenue funds towards the deemed capital investment in accordance with statutory requirements. Depreciation and revaluation and impairment losses are

Appendix A

therefore substituted by a revenue contribution in the General Fund Balance, by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

Operating Leases

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

The Authority as Lessor

Finance Leases

Where the Authority grants a finance lease over a property or an item of plant or equipment, the relevant asset is written out of the Balance Sheet as a disposal. At the commencement of the lease, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment or Assets Held for Sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. A gain, representing the Authority's net investment in the lease, is credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal), matched by a lease (long-term debtor) asset in the Balance Sheet.

Lease rentals receivable are apportioned between:

- a charge for the acquisition of the interest in the property – applied to write down the lease debtor (together with any premiums received), and
- finance income (credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

The gain credited to the Comprehensive Income and Expenditure Statement on disposal is not permitted by statute to increase the General Fund Balance and is required to be treated as a capital receipt. Where a premium has been received, this is posted out of the General Fund Balance to the Capital Receipts Reserve in the Movement in Reserves Statement. Where the amount due in relation to the lease asset is to be settled by the payment of rentals in future financial years, this is posted out of the General Fund Balance to the Deferred Capital Receipts Reserve in the Movement in Reserves Statement. When the future rentals are received, the element for the capital receipt for the disposal of the asset is used to write down the lease debtor. At this point, the deferred capital receipts are transferred to the Capital Receipts Reserve.

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 therefore appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

Operating Leases

Where the Authority grants an operating lease over a property or an item of plant or equipment, the asset is retained in the Balance Sheet. Rental income is credited to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Credits are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments (e.g. there is a premium paid at the commencement of the lease). Initial direct costs incurred in negotiating and arranging the lease are added to the carrying amount of the relevant asset and charged as an expense over the lease term on the same basis as rental income

16. Overheads and Support Services

The recharging of overheads and support services is not reflected in any part of these accounting statements and notes.

17. Property, Plant and Equipment

Appendix A

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 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 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.

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

- Vehicles, plant, etc. and infrastructure - depreciated historical cost.
- Community assets and assets under construction - historic cost.
- Land and buildings - current value, determined as the amount that would be paid for the asset in its existing use (existing use value - EUV). Where there is no market-based evidence of current value because of the specialist nature of an asset, depreciated replacement cost is used as an estimate of current value.
- Surplus Properties – fair value, as described in accounting policy above, equating to market value for their highest and best use from a market participant's perspective.

Assets included in the Balance Sheet at current value are subject to a full valuation once every five years, but are subject to a desktop review at the end of each year to ensure that their carrying amount is not materially different from their current value, or fair value at the year-end. All investment properties are subject to a full valuation every year including surplus assets. In addition the top 10 assets in value and the top 20% across the portfolio are subject to a valuation. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. Exceptionally, gains might be credited to the CI&ES where they arise from the reversal of a loss previously charged to a service. Where decreases in value are identified, they are accounted for by:

- where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains)
- where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the CI&ES.

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 the value of an asset may be impaired. Where indications exist and any possible differences are estimated to be material, the recoverable amount of the asset is estimated and, where this is less than the carrying amount of the asset, an impairment loss is recognised for the shortfall.

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

Appendix A

- 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 CI&ES.

Where an impairment loss is reversed subsequently, the reversal is credited to the relevant service line(s) in the CI&ES, 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. Useful life is between 10 and 50 years depending on the asset.
- 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. Useful life is between 3 and 20 years.
- Infrastructure - straight-line allocation over 10 to 50 years.

No depreciation is charged in year of acquisition but is charged at a full year rate in the year of disposal.

Reclassified assets are depreciated from year of reclassification.

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.

Componentisation of Property Assets

Where an item of Property, Plant and Equipment asset has major components whose cost is significant in relation to the total cost of the item, the components are depreciated separately. The Council has assessed that there are no assets where the components have a significant cost and need to be depreciated as components.

Disposals

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

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

The written-off value of disposals is not a charge against council tax, as the cost of non-current 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.

18. Provisions, Contingent Liabilities and Contingent Assets

Provisions

Provisions are made where an event has taken place that gives the Council a legal or constructive obligation that probably requires settlement by a transfer of economic benefits or service potential, and a reliable estimate can be made of the amount of the obligation. For instance, the Council may be involved in a court case that could eventually result in the making of a settlement or the payment of compensation.

Appendix A

Provisions are charged as an expense to the appropriate service line in the CI&ES in the year that the Council becomes aware of the obligation, and are measured at the best estimate at the balance sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

When payments are eventually made, they are charged to the provision carried in the Balance Sheet. Estimated settlements are reviewed at the end of each financial year - where it becomes less than probable that a transfer of economic benefits will now be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant service.

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

Contingent Liabilities

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

Contingent Assets

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

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

19. Reserves

The Council maintains two groups of reserves, usable and unusable.

Usable reserves comprise the following:

- Capital Receipts Reserve: proceeds from the sales of non-current assets are initially credited to the CI&ES, but legally can only be used to finance capital expenditure, and so are transferred to the Capital Receipts Reserve and afterwards used for this specific purpose.
- Capital Grants Unapplied: the Council receives grants and contributions towards capital expenditure, and, where repayment conditions are not present or no longer apply, they are credited to the CI&ES and immediately transferred into the Capital Grants Unapplied Reserve until required to finance capital investment.
- Earmarked Reserves: the Council may set aside earmarked reserves to cover specific projects or contingencies. These are transferred from the General Fund, and amounts are withdrawn as required to finance such expenditure. The expenditure itself is charged to the appropriate line in the Comprehensive Income and Expenditure Statement. There are no legal restrictions on the use of earmarked reserves, and unspent balances can be taken back to the General Fund in the same way.
- General Fund: this represents all other usable reserves, without legal restrictions on spending, which arise from annual surpluses or deficits.

Unusable Reserves consist of those which cannot be used to finance capital or revenue expenditure:

- Revaluation Reserve: this consists of accumulated gains on individual items of Property, Plant and Equipment. The Reserve contains only gains accumulated since 1 April 2007, the date that the Reserve was created. Accumulated gains before that date were consolidated into the balance on the Capital Adjustment Account. The balance is reduced when assets with accumulated gains are:
 - revalued downwards or impaired and the gains are lost

Appendix A

- used in the provision of services and the gains are consumed through depreciation, or
 - disposed of and the gains are realised.
- Capital Adjustment Account: Receives credits when capital is financed from the General Fund or from the Capital Receipts and Capital Grants Unapplied reserves, and receives debits to offset depreciation and other charges relating to capital which are not chargeable against the General Fund. The account contains revaluation gains accumulated on non-current assets before 1 April 2007, the date on which the Revaluation Reserve was created to hold such gains.
- Deferred Capital Receipts: in some cases (particularly former housing stock disposed of, where the purchaser financed the transaction through a mortgage from the Council) an asset is disposed of, but the income cannot be collected immediately. The Council maintains records for a long term debtor, offset by a balance in the Deferred Capital Receipts Account. When the income is received the debtor is written down and a transfer is made between this account and the Capital Receipts Reserve.
- 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, statutory arrangements require benefits 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.
- Collection Fund Adjustment Account: this represents the differences arising from the recognition of Council Tax income and Non-Domestic Rates in the Comprehensive Income and Expenditure Statement as they fall due from payers, compared with the statutory arrangements for paying across amounts from the Collection Fund to the General Fund.
- Accumulated Absences Reserve: this contains the difference between the statutory and accounting liability for the cost of accumulated absences: the cost is properly chargeable to the Comprehensive Income and Expenditure Statement, but not to the General Fund.
- Financial Instrument Revaluation Reserve: this contains the gains made by the Council arising from increases in the value of its investments that have quoted market prices or otherwise do not have fixed or determinable payments. The balance is reduced when investments with accumulated gains are:
 - revalued downwards or impaired and the gains are lost.
 - disposed of and the gains are realised.

20. 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 CI&ES 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.

21. 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 receivable is excluded from income.

NOTE 2. ACCOUNTING STANDARDS ISSUED BUT NOT YET ADOPTED

This note sets out information regarding the impact of an accounting change that will be required by any new accounting standards that have been issued but not yet adopted by the CIPFA Code of Practice

Appendix A

The changes introduced by the 2019/20 Code that will be relevant to the financial statements of the Council are as follows.

- IFRS 16 Leases will require local authorities that are lessees to recognise most leases on their balance sheets as right-of-use assets with corresponding lease liabilities (there is recognition for low-value and short-term leases). CIPFA/LASAAC have deferred implementation of IFRS16 for local government to 1 April 2021.

NOTE 3. CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

In applying the accounting policies set out in Note 1, the Authority 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:

Business rates -The assumptions around the outcome of appeals against the NNDR valuations (either received to date or expected in future years) represent a material and critical judgement applied to the accounts. The appeals provision is empirically derived from the experience with the 2010 lists as well as appeals determinations so far made against the 2017 list. This year the Council have used a third party, Analyse Local, to provide estimates for the provision for appeals.

Future funding for local government – Consultation is underway on changes to the Business Rates Retention scheme, which will ultimately replace existing government grants, creating uncertainty over future levels of funding. However, the Authority has determined that this uncertainty is not sufficient to provide an indication that the assets of the Authority might be impaired as a result of a need to close facilities and reduce levels of service provision.

Asset classifications – the Council has made judgements on whether assets are classified as Investment Property 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. The classification determines the valuation method to be used.

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 “in the round” and a decision has been made. The accounting treatment for operating and finance leases is significantly different (see accounting policy on leases) and could have a significant effect on the accounts.

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).

Providing for potential liabilities – the Council has made judgements about the likelihood of pending liabilities and whether a provision should be made or whether there is a contingent liability. The judgements are based on the degree of certainty around the results of pending legal actions.

Production of group accounts – the Council has an interest in another entity, Portchester Crematorium Joint Committee, which manages the operations of Portchester Crematorium. The accounts of this entity have not been consolidated into the financial statements of the Council since grouping the accounts would not materially change the reported figures in the Statement of Accounts.

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

The Financial Statements contain estimated figures that are based on assumptions made by the Council about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates. The main items in the Council's Balance Sheet at 31 March 2020 on which such assumptions have been made are as follows:

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 and mortality rates. A firm of consulting actuaries, is engaged to provide the Council with expert advice about the assumptions to be applied.

Changes in any one assumption would be affected by changes in others, so that the effect of a number of changes would be a complex calculation.

Property, Plant and Equipment

The Council's external valuers provide a full valuation of all properties every 5 years. On an annual basis they provided desktop valuations as at 31 March 2020 for all of the Council's investment portfolio and for the top 20% in value of its' operational portfolio and where there has been material movement since the last full valuation. The remaining balance of operational properties was also reviewed to ensure values reflect current values. Valuations of property depend on various assumptions. In particular, valuers have to determine:

- The estimated life of the building.
- Whether or not there is a market for the property in its existing use, which means that they could value at such a market value (EUV). If there is no such market properties are valued at Depreciated Replacement Cost (DRC).

Allowance for impairments of doubtful debts

The Balance Sheet contains figures for various groups of debtors, including sundry debtors, council tax, non-domestic rates, and recoveries of overpayments of housing benefits. Allowances are made, and updated at the end of each financial year, on the basis of recent rates of recovery of the particular class of debt, as far as it can be ascertained.

Allowance for impact of rating appeals

Following the 2017 revaluation, a new check, challenge, appeal process has been introduced, the impact of which is highly uncertain. The Council has made a provision for the likely impact on the its yield of expected future successful appeals for the period to the end of March 2020.

There are a number of appeals against rating values outstanding, many going back to 1 April 2010, and this Council is liable for its share (40%) of the losses resulting from successful appeals.

The Council has made a provision for the likely impact on the its yield of expected future successful appeals based on both the 2010 and 2017 lists for the period to the end of March 2020 based on work down by Analyse Local.

CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

In applying the accounting policies set out in Note 1, the Authority 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:

Business rates -The assumptions around the outcome of appeals against the NNDR valuations (either received to date or expected in future years) represent a material and critical judgement applied to the accounts. The appeals provision is empirically derived from the experience with the 2010 lists as well as appeals determinations so far made against the 2017 list. This year the Council have used a third party, Analyse Local, to provide estimates for the provision for appeals.

Future funding for local government – Consultation is underway on changes to the Business Rates Retention scheme, which will ultimately replace existing government grants, creating uncertainty over future levels of funding. However, the Authority has determined that this uncertainty is not sufficient to provide an indication that the assets of the Authority might be impaired as a result of a need to close facilities and reduce levels of service provision.

Asset classifications – the Council has made judgements on whether assets are classified as Investment Property 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. The classification determines the valuation method to be used.

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 "in the round" and a decision has been made. The accounting treatment for operating and finance leases is significantly different (see accounting policy on leases) and could have a significant effect on the accounts.

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).

Providing for potential liabilities – the Council has made judgements about the likelihood of pending liabilities and whether a provision should be made or whether there is a contingent liability. The judgements are based on the degree of certainty around the results of pending legal actions.

Production of group accounts – the Council has an interest in another entity, Portchester Crematorium Joint Committee, which manages the operations of Portchester Crematorium. The accounts of this entity have not been consolidated into the financial statements of the Council since grouping the accounts would not materially change the reported figures in the Statement of Accounts.

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NON EXEMPT

HAVANT BOROUGH COUNCIL

GOVERNANCE, AUDIT AND FINANCE BOARD

29 JULY 2020

ANNUAL GOVERNANCE STATEMENT 2019-20: DRAFT

FOR INFORMATION

Portfolio: Governance, Cllr Inkster

Chief Finance Officer: Lydia Morrison

Key Decision: No

1.0 Purpose of Report

- 1.1** Good business practice is to ensure robust policies and systems are in place and that annual reviews of governance arrangements take place. This report is submitted to the Governance, Audit and Finance Board for information on the draft of the Annual Governance Statement 2019-20.

2.0 Recommendation

- 2.1** Governance, Audit and Finance Board is recommended to note the draft copy of the Annual Governance Statement 2019-20 at Appendix A and provide any comments for editing before the final version is brought to Governance, Audit and Finance Board for approval.

3.0 Executive Summary

- 3.1** The CIPFA/SOLACE framework 'Delivering Good Governance in Local Government' urges local authorities to review the effectiveness of their existing governance arrangements against their Local Code of Corporate Governance, and prepare a governance statement in order to report publicly on the extent to which they comply with their own code on an annual basis, including how they have monitored the effectiveness of their governance arrangements in the year, and on any planned changes for the coming period.
- 3.2** The draft Annual Governance Statement 2019-20 at Appendix A details the governance framework, including the key elements of the Council's governance arrangements, a review of the framework outlining the annual review process and overall opinion, and further improvement areas.

3.3 In terms of overall corporate governance it is the Chief Executive's and Chief Finance Officer's opinion that the overall governance arrangements of the Council are sound. The Annual Governance Statement is informed by the self-assessment of compliance against the principles by the Governance Manager, the Annual Governance Questionnaire (a survey made available to all staff), and the work of internal audit and external audit. The Havant Borough Council Annual Governance Statement 2019-20 will be published with the Annual Statement of Accounts.

3.4 Part of the Governance, Audit and Finance Board's remit is to assess the effectiveness of internal controls, risk management, and governance arrangements in place and this includes to be satisfied that the authority's assurance statements, including the Annual Governance Statement, properly reflect the risk environment and any actions required to improve it, and demonstrate how governance supports the achievements of the authority's objectives¹

4.0 Additional Budgetary Implications

4.1 None

5.0 Background and relationship to the Corporate Strategy and Directorate Business Plan/s

5.1 Corporate governance comprises the systems and values by which Havant Borough Council is directed and controlled and through which it is accountable. To demonstrate compliance with the principles of good corporate governance, Havant Borough Council must ensure that it does the right things and in the right way. The Council must also ensure that this is done in a timely, inclusive, open, honest and accountable manner.

6.0 Options considered and reasons for the recommendation

6.1 A new 'CIPFA/SOLACE Framework' was published in 2016 to ensure it remains fit for purpose, which applies to Annual Governance Statements prepared for the financial year onwards. The revised Framework defines the seven core principles of good governance.

6.2 The Framework urges local authorities to review the effectiveness of their existing governance arrangements against their Local Code of Corporate Governance and prepare a governance statement and report compliance on an annual basis.

7.0 Resource Implications

¹ CIPFA guidance note for local authorities 'Audit Committees' (2013)

- 7.1 Financial Implications - none
- 7.2 Human Resources Implications - none
- 7.3 Other Resource Implication - none

8.0 Legal Implications

- 8.1 None. The publication of the Annual Governance Statement details the governance framework, including the key elements of the Council's governance arrangements.

9.0 Risks

- 9.1 The document is a vital part of ensuring that Council business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.
- 9.2 Failure to produce and report the document would carry the risk that the Council was failing in its duty to evidence that it was operating in accordance with the law and proper standards and that public money is safeguarded and properly accounted for.

10 Consultation

- 10.1 The Annual Governance Statement has been shared with relevant Heads of Service, Executive Board and Corporate Governance Board.

11 Communication

- 11.1 Once approved by Governance, Audit and Finance Board, the Annual Governance Statement will be published on the HBC website alongside the Statement of Accounts 2019-20.

Appendices: Appendix A – draft Annual Governance Statement 2019-20

Agreed and signed off by:
Monitoring Officer: 02/06/20
S151 Officer: 02/06/20

Contact Officer: Will Jackson
Job Title: Governance Manager
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Introduction

The Leader of the Council (Councillor Michael Wilson) and Chief Executive (Gill Kneller) both recognise the importance of having good systems in place to manage and deliver services to the residents of Havant Borough. Each year the Council is required to produce an Annual Governance Statement (AGS) which describes how its corporate governance arrangements have been working. This AGS is in respect of 2019-20.

The Council also publishes an Annual Statement of Accounts which provides further information on the opportunities and challenges faced by the Council.

The purpose of the governance framework

The governance framework comprises the systems, processes, culture and values by which the Council directs and controls its activities, and how it leads, engages with and accounts to the community it serves. The framework brings together an underlying set of legislative requirements, good practice principles and management processes and enables the Council to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost-effective services.

The system of internal control is a significant part of that framework and is designed to manage risk to an acceptable level. It cannot eliminate all risk of failure to achieve the Council's aims and objectives, and seeks to provide reasonable rather than absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify, prioritise and manage the risks to the achievement of the Council's aims and objectives.

The governance framework addresses the way the Council is controlled and managed, both strategically and operationally, and how it will deliver its services. The framework recognises that the Council's business is focused upon its corporate priorities and seeks to facilitate delivery to our local communities.

The risk management processes and other internal control systems such as standards of conduct and audit form part of this framework. Members and senior Officers are responsible for putting in place proper arrangements for the governance of the Council's affairs and the stewardship of the resources at its disposal. This task is managed by the Executive Board which comprises the Chief Executive, Executive Directors and Chief Finance Officer (Section 151 Officer) with advice and guidance provided by the Monitoring Officer. The Executive Board is provided with assurance by the Corporate Governance Board.

How do we know it is working?

The annual process that we use to maintain and review effectiveness of our governance arrangements includes a wide input.

Page 250



How we apply the governance framework to the Local Code of Corporate Governance

The Council aims to achieve effective corporate governance through the Local Code of Corporate Governance. The table below highlights examples of how the Council has adhered to its governance commitments as set out in the Code and includes hyperlinks to sources of further information which include more detail about how the Council has implemented its commitments.

A. BEHAVING WITH INTEGRITY, DEMONSTRATING STRONG COMMITMENT TO ETHICAL VALUES AND RESPECTING THE RULE OF LAW	
How the Council meets these principles	Where you can see Governance in action
<p>There are codes of conduct in place for all Councillors and Officers which can be found in Part 4 of the Constitution. The Council has appointed independent persons to investigate any allegations of misconduct, and the Governance, Audit and Finance Board receives regular reports from the Monitoring Officer on any complaints regarding Councillors.</p> <p>The Council’s Constitution contains the standing orders, scheme of delegation, financial regulations and contracts procedure rules. The Constitution also contains the policies for anti-fraud and corruption, anti-bribery and whistleblowing.</p> <p>All Council employees have clear conditions of employment, and roles and responsibilities are set out in job descriptions. Mandatory performance objectives are set for all staff which ensure compliance with data protection law, Health and Safety regulations, and the Council’s Safeguarding Policy.</p> <p>There is a requirement for Councillors to make a Declaration of Disclosable Pecuniary Interests within 28 days of taking office and to notify the Council of any changes to the interests made in this declaration within a specified time period. Councillors must also disclose interests which are not registered but which are relevant to matters to be discussed at a meeting of the authority. Councillors are barred from participating in any discussion on, or voting on, the matter in relation to which the Member has a disclosable pecuniary interest. There is an up-to-date register of gifts and hospitality, and an annual register of declarations. Any declarations of interest made during meetings are recorded in the minutes.</p> <p>The Council has in place a complaints procedure including weekly reminders to relevant managers responsible.</p>	<p>Councillor Code of Conduct Staff Code of Conduct Governance, Audit and Finance Board</p> <p>Constitution Anti Fraud & Corruption Policy including Fraud Response Plan Whistleblowing Policy</p> <p>Declarations of interest</p> <p>Complaints procedure</p>

<p>The Council has a shared Monitoring Officer with East Hampshire District Council and as a member of the Executive Board they are kept apprised on the Council’s projects and actions and are ultimately responsible for legal compliance.</p> <p>Statutory officer roles are the Head of Paid Service who is the Chief Executive, the Chief Financial (S151) Officer, who carries overall responsibility for the Council’s financial administration, and the Monitoring Officer, who ensures the Council acts lawfully. The Data Protection Officer is also a statutory role under the new GDPR legislation. All of these roles are shared with East Hampshire District Council.</p>	<p>Management structure</p>
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B. ENSURING OPENNESS AND COMPREHENSIVE STAKEHOLDER ENGAGEMENT

How the Council meets these principles	Where you can see Governance in action
<p>The Council has laid out its purpose, direction, vision and objectives in its Corporate Strategy which can be obtained either on the Council’s website or from the Council’s offices. The Council Corporate Strategy is comprehensively reviewed on a regular basis.</p>	<p>Corporate Strategy</p>
<p>The Council is committed to transparency and an open culture and publicises information in line with the publication scheme under the Freedom of Information Act. In addition, we subscribe to the Government’s transparency agenda and publish information such as remuneration for senior management and information on items of expenditure over £500.</p>	<p>Freedom of Information</p>
<p>The Council’s democratic function is responsible for ensuring agendas and key decisions are published in line with the statutory legal requirements. They are also responsible for supporting the scrutiny function of the Council and publishing a corporate calendar of dates annually.</p>	<p>Committees and Papers</p>
<p>The Council carries out the Residents’ Survey every two years, the results of which are shared with Heads of Service to inform their decision making. The next Residents’ Survey is due to take place in summer 2020.</p>	<p>Residents’ Survey</p>
<p>In addition to the publication of the residents’ magazine, called ‘Serving You’, which is translated into accessible formats, the Council has a Facebook page and Twitter feed which is actively promoted and used. To promote transparency and</p>	<p>Serving You magazine HBC Facebook Twitter</p>

<p>wider engagement with Council decisions, residents can use social media such as Facebook, Twitter, LinkedIn and Instagram to get updates from and interact with the Council.</p> <p>The Council’s website is set out in a clear and easily accessible way, using infographics and plain language. The information which residents use most, such as Council Tax and Waste and Recycling, can be accessed quickly and easily from the homepage. Accessibility improvements have been made to the website in 2019-20 including changing the colour saturation to assist the visually impaired.</p> <p>The Statement of Accounts provides a clear summary of the Council’s activity over the previous year, so that residents can see where money has been spent and what this has achieved.</p> <p>The Council has a joint venture partnership (Norse South East) for waste collection which is governed by the Norse South East Board. There are members from Norse Commercial Services and the Council on the Board. Norse South East is responsible for the procurement and efficient management of waste and recycling collections, street cleaning, public convenience cleansing, grounds maintenance and associated service facilities for the treatment and disposal of residual waste.</p>	<p>Instagram http://www.havant.gov.uk/</p> <p>http://www.havant.gov.uk/accounts</p> <p>http://norsesoutheast.co.uk/</p>
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<p>C. DEFINING OUTCOMES IN TERMS OF SUSTAINABLE ECONOMIC, SOCIAL AND ENVIRONMENTAL BENEFITS</p>	
<p>How the Council meets these principles</p>	<p>Where you can see Governance in action</p>
<p>The five themes in the Council’s Corporate Strategy (Financial Sustainability, Economic Growth, Environmental Sustainability, Public Service Excellence and Creativity & Innovation) are used to guide its corporate planning and decision making. A refreshed Corporate Strategy has been developed in 2019 and this will be published in 2020.</p> <p>The Council takes an annual approach to business planning, allowing a close link between business and financial planning. The Medium Term Financial Strategy is reviewed annually and forms the basis of the annual budgeting process.</p> <p>A Corporate Action Plan is prepared each year to support the delivery of the vision laid out in the Corporate Strategy, and progress against the objectives in the Corporate Action Plan is reported quarterly. Each service’s Key Performance Indicators are monitored corporately and reported to the Executive Board on a quarterly basis to ensure that the</p>	<p>Corporate Strategy</p>

<p>objectives in the Corporate Action Plan are on target. Monthly financial forecasts are submitted to the Executive Board and quarterly to Councillors alongside the Healthcheck report.</p> <p>The Council’s budget report contains a summary of the budget and business plans that has been set for Havant Borough Council for 2019-20, as approved by the Council on the 27th February 2019. It shows on what service areas money is spent, and how this expenditure is funded. Also within this document is information showing the forecast financial position over the next five years, taking into account changes in government funding, other income and spending.</p> <p>The Council uses evidence based insight to inform decision making and uses the data available to understand residents and local businesses better. The Council is committed to consulting with and engaging with residents and local businesses in the planning and delivery of services to meet the needs of the community.</p>	<p>Council Budget</p>
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<p>D. DETERMINING THE INTERVENTIONS NECESSARY TO OPTIMISE THE ACHIEVEMENT OF THE INTENDED OUTCOMES</p>	
<p>How the Council meets these principles</p>	<p>Where you can see Governance in action</p>
<p>The Council has a Medium Term Financial Strategy (available on the Council’s website as part of the budget for the forthcoming year) which is used to align resources to key priorities.</p> <p>The Council has report templates to ensure authors cover all the requirements to enable a decision to be made; they include options appraisal (if required), cost and risk analysis in addition to key signatories such as legal and finance and must include the portfolio holder.</p> <p>All decision-making meetings are held in public and decisions made by Cabinet members and Officers are published in line with the statutory legal requirements, although some items are considered as exempt. Minutes of all Council meetings are made available to the public, and members of the public have the opportunity to contribute to Council meetings.</p> <p>The Council has a complaints and feedback system, which records and monitors customer comments, complaints and requests for information.</p>	<p>Medium Term Financial Strategy</p> <p>Council Decisions</p> <p>Complaints procedure</p>

<p>The Council has an internal audit service sourced through the Southern Internal Audit Partnership. The internal audit service has an annual audit plan based on a risk analysis carried out by the auditors each spring. Audit recommendations are monitored to ensure that they are completed by the service within a reasonable timeframe, and any actions which are not completed are reported to Executive Board.</p> <p>The scrutiny function as specified by section 9F of the Local Government Act 2000 is carried out by three boards: Governance, Audit and Finance Board, Business and Commercial Services Board, and Operations and Place Shaping Board. Meetings of these boards are generally held in public though some items are considered exempt. Members of these boards must not also be members of the Cabinet. Decisions made by Cabinet may be ‘called in’ for scrutiny both before and after being put into effect.</p>	<p>Internal audit</p> <p>Governance, Audit and Finance Board Business and Commercial Services Board Operations and Place Shaping Board</p>
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E. DEVELOPING THE COUNCIL’S CAPACITY, INCLUDING THE CAPABILITY OF ITS LEADERSHIP AND THE INDIVIDUALS WITHIN IT

How the Council meets these principles	Where you can see Governance in action
<p>The Council has a joint management team with East Hampshire District Council. This management team is made up of the Chief Executive, Chief Finance Officer (S151 Officer), two Executive Directors and the Heads of Service, most of which are shared with East Hampshire District Council. The costs of all shared management posts are shared between the Councils.</p> <p>A number of the Council’s corporate services are delivered through the 5 Councils Partnership with Capita which is monitored via a shared Client Team.</p> <p>The Council has a performance management framework which includes a comprehensive induction programme for new starters. Performance appraisal processes for all employees include regular 1:1 meetings with line managers and assessment against the Staff Competency Framework. In 2019-20, e-learning courses on data protection and cybersecurity were undertaken by staff, alongside the ongoing leadership development programme, business continuity and emergency planning training, and specialist professional training for frontline services.</p>	<p>Management structure</p>

<p>Following the Borough Council elections, all Councillors are required to undertake a comprehensive training programme which ensures that they have an understanding of the procedures and protocols of the Council. This may include training on planning and licensing matters and Councillors are not allowed to sit on the Planning or Licensing Committees until such training has been undertaken.</p> <p>In addition to the compulsory training, a series of other courses and events are also offered. Under the Councillor Development Programme and accompanying Competency Framework, during the course of a Councillor’s four year term of office, regular skills audits are undertaken to identify any new skills requirements or refresher training requirements.</p>	<p>Councillor Competency Framework</p>
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F. MANAGING THE RISKS AND PERFORMANCE THROUGH ROBUST INTERNAL CONTROL AND STRONG PUBLIC FINANCIAL MANAGEMENT

How the Council meets these principles	Where you can see Governance in action
<p>The Council ensures that the roles and responsibilities for decision making and governance arrangements are defined and allocated, so that there is clear accountability for decisions made and actions taken. The Council does this by appointing a Leader and a Cabinet, which allocates specific executive responsibilities.</p>	<p>Council structure</p>
<p>There are also a number of committees appointed to discharge regulatory and scrutiny functions. Each committee has clear terms of reference setting out roles and responsibilities. All leadership roles, the roles of key Officers and the Council’s Scheme of Delegation are set out within the Council Constitution.</p>	<p>Committee structure</p>
<p>The Cabinet operates within the policy framework set by Full Council, and makes key decisions. All Cabinet meetings are held in public, with the exception of exempt items. All decision records are publicly available, and the Forward Plan and Key Decision notice is published on the Council website. Decisions made by Cabinet can be called in for review by the Governance, Audit and Finance Board. Decisions can also be made by Officers under delegated powers and reported to Councillors in line with the Council Constitution. Authority to make decisions is given in the Scheme of Delegation and by specific delegation by Cabinet or Council.</p>	<p>Forward Plan</p>
<p>Risk is considered and recorded as part of the business planning process, and monitored throughout the year as part of the quarterly review of performance and financial management (quarterly Healthcheck report). The Council has a wide range of performance indicators, which are used to measure progress against the Council’s priorities. Performance</p>	

<p>indicators are reported quarterly to the Executive Board and informally to Cabinet. Performance indicators clearly link individual services to the corporate objectives and include details of national and local performance indicators and risk. Performance indicators are reviewed annually as part of the business planning process to ensure they continue to be relevant and stretching.</p> <p>A Corporate Governance Board has been established with an objective of providing a pragmatic layer of assurance to the business. Specifically, the Corporate Governance Board ensures that the organisation develops and implements an effective approach to corporate governance which enables the business and affairs of the Council to be carried out, directed and managed with the objective of enhancing value to the public. This will be underpinned by the Local Code of Corporate Governance. In addition, the Corporate Governance Board is responsible for ensuring that an adequate risk management framework and associated control environment exists within the Council, and for monitoring the arrangements in place for the identification, monitoring and management of risks.</p> <p>The Council has in place a number of policies and procedures to ensure decisions made are robust. These include the Finance and Contracts Procedure rules in the Constitution. Compliance with these policies is the responsibility of all Officers.</p>	<p>Corporate Governance Policy</p> <p>Local Code of Corporate Governance</p> <p>Policy Hub</p>
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G. IMPLEMENTING GOOD PRACTICES IN TRANSPARENCY REPORTING AND AUDIT TO DELIVER EFFECTIVE ACCOUNTABILITY

How the Council meets these principles	Where you can see Governance in action
<p>The Council publishes the Statement of Accounts annually within the statutory timescales. Accounting statements incorporate the full requirements of best practice guidance.</p> <p>The Council has a Governance, Audit and Finance Board to provide assurance to the Council on the effectiveness of internal audit and the robustness of the Council’s Annual Accounts. Risk management is controlled through the Corporate Governance Board and reported to Executive Board through the quarterly Healthcheck report. Risks rated as above the risk threshold are reported as part of the quarterly Healthcheck to Councillors.</p>	<p>Statement of Accounts</p> <p>GAF Board</p> <p>Full Council</p>

Full Council is responsible for agreeing new policies and amendments to existing policies. It also sets out the policy and budget framework, and approves the annual budget. Governance, Audit and Finance Board approves the Statement of Accounts.

The Council is subject to independent external audit currently by Ernst & Young. The external audit plan outlines the work undertaken and the timing of external audit reports.

The Council supplements this work with an internal audit service sourced through the Southern Internal Audit Partnership. The internal audit service has an annual audit plan based on a risk analysis carried out by the auditors each spring. This minimises the risk of fraud and error, and provides management with assurance that policies and procedures are robust. The Chief Internal Auditor is required to provide a written status report to the Executive Board, summarising the assurance opinions arising from the internal audit reviews carried out during the year.

The Governance, Audit and Finance Board undertake the core functions of an audit committee.

The Council has appointed the Chief Finance Officer as the Section 151 Officer with the statutory responsibility for the proper administration of the Council's financial affairs.

[Internal audit](#)

Review of effectiveness

The Council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of effectiveness is informed by the following areas:

Area	Review of effectiveness
Political leadership	<ul style="list-style-type: none"> • The Council’s Governance, Audit and Finance Board is responsible for monitoring, scrutinising and holding the decision makers to account. It meets five times per year as the Council’s official audit committee. The committee ensures that the internal and external audit reports it receives are robust. The Board’s role has been reviewed by the Monitoring Officer as part of the Constitution review. • Another role of the Governance, Audit and Finance Board is to monitor standards of conduct of Members and advise the Council on probity issues. The Member/Officer relations protocol is being developed further with additional training for Councillors to be rolled out in 2020. • Following the expiration of the previous Corporate Strategy in 2019, a revised Strategy covering the period from 2020 to 2024 has been developed and will be subject to consultation with residents and other stakeholders during 2020 to ensure that it best reflects the Council’s ambitions for the borough in the coming years. The Corporate Strategy is a key strategic document that articulates the vision, values and priorities of the organisation and provides a framework for putting the Council’s resources to best use.
Officer leadership	<ul style="list-style-type: none"> • The Council’s Constitution underwent a comprehensive review in 2019-20 to ensure that it remains an effective and up-to-date document. • The Council’s Monitoring Officer has a legal responsibility to report on matters of unlawfulness within the Council. In 2019-20 the Monitoring Officer continued his review of the efficiency and effectiveness of all arrangements relating to Council and Committee meetings, working groups, and the required officer support and will be reporting on this to Full Council. • The Corporate Governance Board report to the Executive Board on a quarterly basis on governance matters covering risk, health and safety, business continuity, emergency planning, information governance and financial risk. Updates are provided to Members through the quarterly Healthcheck report.
Internal assessment and monitoring	<ul style="list-style-type: none"> • There are regular reporting arrangements in place regarding the financial affairs of the Council. The budget for 2019-20 was agreed by Full Council on 27th February 2019 and financial performance is reported on a quarterly basis to Members.

	<ul style="list-style-type: none"> • Effective operation of the Performance Management Framework throughout the year. Monitoring information on key areas of performance has been provided by the Governance Hub for review and action. • As part of the process of identifying any areas where governance needs to be strengthened across the organisation, the Annual Governance Questionnaire was extended to all staff in 2019-20. Staff were asked to complete an online questionnaire indicating whether their services comply with each of the criteria in the Code of Corporate Governance. The questionnaire highlighted the following: <ul style="list-style-type: none"> ○ 90% of responses said there was evidence of meeting the criteria ○ Areas of strength: <ul style="list-style-type: none"> ▪ Implementation of audit recommendations ▪ Performance appraisals and other people management policies ▪ Compliance with FOI procedure ○ Areas for improvement: <ul style="list-style-type: none"> ▪ Awareness of structure and operation of Committees ▪ Awareness of staff Code of Conduct ▪ Using evidence-based insight in decision making <p>Areas that scored poorly in the questionnaire will be targeted with a programme of improvements throughout 2020-21.</p>
<p>Responsibilities of Chief Finance Officer (s151)</p>	<ul style="list-style-type: none"> • The Chief Finance Officer is the Responsible Financial Officer and is a member of the Executive Board, reporting directly to the Chief Executive. They are responsible for delivering and overseeing the financial management arrangements of the Council. Havant Borough Council shares a Chief Finance Officer with East Hampshire District Council. • They are also responsible for ensuring alignment with the Code of Practice on Local Authority Accounting for 2019-20. Havant Borough Council’s financial management arrangements conform to the governance requirements of the CIPFA Statement on the Role of the CFO in Local Government (2016).
<p>Internal audit</p>	<ul style="list-style-type: none"> • The Council’s internal audit programme is provided by the Southern Internal Audit Partnership which is hosted by Hampshire County Council. An audit plan, based on a full risk evaluation, is approved annually. • Progress against the audit plan is reported quarterly to the Governance, Audit & Finance Board. Any outstanding high risk actions are addressed as a matter of priority. • Internal audit attend Corporate Governance Board every quarter to provide an update on progress of management actions. Any outstanding actions are reported to Executive Board to ensure that these are escalated where necessary and completed within a reasonable timescale. • The Southern Internal Audit Partnership delivered 25 review areas over the course of the year ending 31 March 2020 including all carry forward reviews. The Chief Internal Auditor’s opinion of Havant Borough Council’s framework of

Annual Governance Statement 2019-20

	governance, risk management and management control is 'adequate' and audit testing has demonstrated controls to be working in practice.
External audit	<ul style="list-style-type: none">• The Council's external audit requirement is provided by Ernst & Young LLP.• The role of external audit is to ensure that the Council's Accounts are free from material error, to provide a value for money conclusion and to certify key grant claims.

Last year's key improvement areas

In the 2018-19 Annual Governance Statement, three key issues were identified for improvement. Below are the issues and actions taken during 2019-20.

Improvement area	Issue of concern	Action taken
<p>Management of major contracts:</p> <ul style="list-style-type: none"> • 5-Councils Contract/6-Councils Partnership • Norse South East 	<p>5-Councils Contract/6-Councils Partnership Continued issues with the service provider's business model have required significant resource to ensure that the contract performs to required standards. It was therefore decided to bring Finance and HR services back inhouse and this was completed during 2019-20. Payroll in particular was a high risk transfer so this was prioritised and was successfully brought back with no issues.</p> <p>Norse South East The Council has a joint venture with Norse Commercial Services (Norse South East) for waste collection and environmental services (including street cleansing and grounds maintenance). Following the agreement to supply services to East Hampshire District Council, there was an opportunity to renegotiate the contract to ensure that it continued to represent value for money as well as ensuring that the service level for Havant Borough Council was not compromised by the mobilisation of services for EHDC.</p>	<p>5-Councils Contract/6-Councils Partnership</p> <ul style="list-style-type: none"> • Finance and HR services were brought back inhouse with a staged process to minimise risks (HR advisory returned during September 2019 and Finance and HR admin and payroll returned from 1st April 2020). • Transition was managed by a dedicated project team and there was minimal disruption to the services provided during the return of these functions. • Management of the services still provided through the contract continues through regular review of performance via Client Team. <p>Norse South East</p> <ul style="list-style-type: none"> • Regular reporting was made to the Strategic Project Board throughout the mobilisation of the new contract. • Transition to the provision of East Hampshire's services was smooth with no impact on the services provided in Havant borough. • The new contract is being monitored through KPIs measuring financial savings and quality of service. Health and Safety statistics from Norse South East are also being reported to both Councils. • The mobilisation of the new contract received a 'substantial' assurance rating from internal audit in 2019-20.

Annual Governance Statement 2019-20

<p>Review of the functioning of the scrutiny committee</p>	<p>Amend the current committee structure to articulate clear separation of Executive and Non-Executive functions.</p>	<p>During the review of the Constitution and committee structure by the Monitoring Officer, it was decided that the current scrutiny function was adequate and that the Constitution review subcommittee would instead conduct a review of the committee structure as a whole in 2020-21 as part of the continued overhaul of the Constitution.</p>
<p>Services need to ensure that they have clearly communicated and embedded effective governance arrangements, policy management and performance management</p>	<p>Continued improvement of governance and communication of policies and associated guidance, including embedding new ways of working. This includes strong messages around compliance and accountability and a planned programme of work to identify and tackle areas of non-compliance.</p> <p>Review of the Performance Management Framework covering both corporate performance and personal performance.</p>	<p>Service risk registers were reintroduced during 2019-20 to ensure that services were following effective risk management practices. Risks can be escalated to the corporate risk register if necessary.</p> <p>The Annual Governance Questionnaire was expanded to include all staff to emphasise that good governance is everyone's responsibility. Results indicated that the general understanding of governance framework is good, but there are still areas for improvement. These will be addressed in 2020-21.</p> <p>Mandatory information governance e-learning courses were introduced for all staff in 2019-20.</p> <p>The Performance Management Framework will be comprehensively reviewed in 2020-21 to tie in with the planned overhaul of the corporate training and professional development offer.</p>

Identified key improvement areas

The Council is generally satisfied with the effectiveness of corporate governance arrangements and internal control. As part of its continuing efforts to improve governance arrangements the following issues, as highlighted in this Statement, have been identified for improvement in 2020-21.

Issue of concern	Key improvement	Lead officer	Action required
Potential conflict of interest within partnership arrangements	Havant Borough Council and East Hampshire District Council have had a shared Chief Executive and management team for several years which has allowed both Councils to benefit from salary savings and the sharing of skills and experience. During 2019-20 a number of opportunities to renegotiate contracts have highlighted the importance of acknowledging potential conflict of interest when working across two Councils. The current conflict of interest arrangements cover conflict between corporate and personal interests, but there is no formal policy in place for managing potential conflict of interest for the shared management of the two organisations. As the partnership arrangement with East Hampshire District Council continues to develop and change in the coming years, it is imperative that the individual priorities and needs of both Councils are considered as part of decision making processes, especially in contract negotiations.	Gill Kneller	<p>Develop conflict of interest policy relating to shared management of the two Councils, particularly regarding contract negotiations.</p> <p>Review all shared service, shared workforce and shared values options for future direction of the partnership with this in mind.</p> <p>Ensure that shared staff understand the importance of considering potential conflict of interests between the two organisations.</p>
Development and embedding of new Corporate Strategy	<p>Following the expiration of the previous Corporate Strategy in 2019, a revised Strategy covering the period from 2020 to 2024 has been developed and will be subject to consultation with residents and other stakeholders during 2020 to ensure that it best reflects the Council's ambitions for the borough in the coming years.</p> <p>As one of the key strategic documents for the Council, the Corporate Strategy articulates the vision, values and</p>	David Brown	<p>In consultation with residents and other stakeholders, finalise and publish the Corporate Strategy.</p> <p>Ensure that the new Corporate Strategy is embedded and that there are strong links between the strategy and the daily work of officers and councillors, particularly</p>

Annual Governance Statement 2019-20

	priorities of the organisation and provides a framework for putting the Council’s resources to best use.		within the Performance Management Framework.
Embedding of revised Constitution including codes of conduct and structure of Council	The Constitution review subcommittee will continue their work to ensure that the Constitution is modernised and streamlined in 2020-21. This will be followed by work to ensure that the revised Constitution is understood by all councillors and staff. This will be key to ensuring that the proper procedures are followed and that the framework of corporate governance remains strong.	David Brown	Finish review of Constitution and produce revised version which is fit for purpose and able to be understood and used to guide decision making by all. Embed an improved understanding of the Constitution and its role in the Council’s functioning, taking the opportunity to improve awareness of the governance framework.

Opinion

It is our opinion that corporate governance, along with supporting controls and procedures, is strong. We propose over the coming year to take steps to address the above matters to further enhance our corporate governance arrangements. We are satisfied that these steps will address the need for improvements that were identified in our review of effectiveness and we will monitor their implementation and operation as part of our next annual review.

Signed

CEO

Leader

Glossary

Annual Governance Statement (AGS)	The Annual Governance Statement is a document produced each year which assesses how corporate governance arrangements have been working for the period of time indicated
Budget	The estimate of income and expenditure for a set period of time. For the Council this covers the financial year (1 April until 31 March each year) and includes all the financial resources allocated to different services and projects.
Code of conduct	The codes of conduct for Members and Officers set the standards and behaviour expected of Councillors and staff.
Constitution	The Council's Constitution contains the standing orders, scheme of delegation, financial regulations and contracts procedure rules. The Constitution also contains the policies for anti-fraud and corruption, anti-bribery and whistleblowing.
Corporate Strategy	A key document detailing the purpose, direction, vision and objectives of the organisation over the forthcoming years.
Corporate Governance Board	The Corporate Governance Board meets quarterly to provide assurance to the business on matters of corporate governance. Specifically, the Corporate Governance Board ensures that the organisation develops and implements an effective approach to corporate governance which enables the business and affairs of the Council to be carried out, directed and managed with the objective of enhancing value to the public.
Data Protection Officer	A Data Protection Officer (DPO) is a role required by GDPR. Data Protection Officers are responsible for overseeing data protection strategy and implementation to ensure compliance with GDPR requirements.
Executive Board	The meeting of chief Officers comprised of the Chief Executive, Executive Directors and Chief Finance Officer (Section 151 Officer) with advice and guidance provided by the Monitoring Officer.
Executive Management Team	Comprises the Chief Executive, Executive Directors, Chief Finance Officer and Heads of Service.
Data Protection Act 2018	The Data Protection Act 2019 and associated General Data Protection Regulations which came into force in May 2018. This strengthens the regulatory environment for data owners, controller and processors and aligns legislation with other European countries.
Governance, Audit & Finance Board	The Governance, Audit & Finance Board considers the Council's governance arrangements and ensures that the financial affairs of the Council are properly conducted.
Head of Paid Service	The most senior Officer with overall responsibility for the management and operation of the Council. Also known as the Chief Executive.
Healthcheck	A quarterly review of Council performance covering financial and business plan progression for that quarter.
Key Performance Indicators	A measurable value that demonstrates how effectively the organisation is achieving against its key objectives.

Annual Governance Statement 2019-20

Licensing Committee	The Committee of Councillors that undertakes all licensing and gambling functions, powers and duties conferred on the Council under the Licensing Act 2003 and the Gambling Act 2005.
Local Plan	A Local Plan sets out the local planning policies and identifies how land is used, determining what will be built where. Once a Local Plan becomes adopted it provides the framework for development within an area.
Local Code of Corporate Governance	The Local Code of Corporate Governance describes the arrangements in place to ensure that the Council conducts its business in accordance with the law and proper standards and that public money is safeguarded, properly accounted for and used economically, efficiently and effectively.
Medium Term Financial Strategy	The Council's key financial planning document. It aims to provide the Council with an assurance that the spending plans are affordable over the medium term (five years). The MTFS includes a five year budget forecast that is reviewed annually as part of the budget setting process.
Monitoring Officer	The Officer charged with ensuring that everything that the Council does is fair and lawful.
Planning Committee	The Committee of Councillors that sits as the local planning authority to determine planning applications (not delegated to Officers).
Policy Framework	The plans and strategies which have been adopted by the Full Council in accordance with which the Leader of the Council, Cabinet, Committees and Officers must operate.
Residents' Survey	A survey held approximately every two years to gather residents' views of the borough and services offered by the Council.
Section 151 Officer	The Officer responsible for the administration of the financial affairs of the Council (under section 151 of the Local Government Act 1972). Also known as the Chief Finance Officer.
Statement of Accounts	The Statement of Accounts shows, in financial terms, the performance of the Council for the year indicated. It is a statutory publication produced in accordance with legislative requirements and the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice on Local Authority Accounting in the United Kingdom.