

HAVANT BOROUGH COUNCIL  
PUBLIC SERVICE PLAZA  
CIVIC CENTRE ROAD  
HAVANT  
HAMPSHIRE P09 2AX



**Havant**  
BOROUGH COUNCIL

Telephone: 023 9247 4174  
Fax: 023 9248 0263  
Website: [www.havant.gov.uk](http://www.havant.gov.uk)

## AUDIT AND FINANCE COMMITTEE AGENDA

**Membership:** Councillor Inkster (Chairman)

Councillors Diamond, Guest, Hughes, Linger (Vice-Chairman), Moutray, Patel and Wade

**Meeting:** Audit and Finance Committee

**Date:** Thursday 20 October 2022

**Time:** 5.00 pm

**Venue:** Hurstwood Room, Public Service Plaza, Civic Centre Road,  
Havant, Hampshire PO9 2AX

The business to be transacted is set out below:

Kim Sawyer  
Chief Executive

12 October 2022

Contact Officer: Emma Carlyle 023 9244 6151  
Email: [emma.carlyle@havant.gov.uk](mailto:emma.carlyle@havant.gov.uk)

	<b>Page</b>
<b>1 Apologies for Absence</b>	
To receive and record any apologies for absence.	
<b>2 Declarations of Interests</b>	
To receive and record any declarations of interest from Members.	
<b>3 Minutes</b>	<b>1 - 4</b>
To confirm the minutes of the previous meeting held on the 28 <sup>th</sup> July 2022.	
<b>4 External Auditors Annual Report 20-21</b>	<b>5 - 40</b>
Report number HBC/086/2022 enclosed for noting.	
<b>5 Q1 Internal Audit Progress</b>	<b>41 - 56</b>
Report number HBC/088/2022 attached for noting.	
<b>6 DRAFT - 2021-22 Statement of Accounts</b>	<b>57 - 158</b>
Report number HBC/085/2022 attached for decision.	
<b>7 Ombudsman Annual Review Letter 2021/22</b>	<b>159 - 176</b>
Report number HBC/084/2022 enclosed for noting.	
<b>8 Mid Year Treasury Management &amp; Outturn Report 2021-22</b>	<b>177 - 198</b>
Report number HBC/087/2022 enclosed for decision.	

## **GENERAL INFORMATION**

**IF YOU WOULD LIKE A VERSION OF THIS AGENDA, OR ANY OF ITS REPORTS, IN LARGE PRINT, BRAILLE, AUDIO OR IN ANOTHER LANGUAGE PLEASE CONTACT DEMOCRATIC SERVICES ON 023 9244 6231**

### **Internet**

This agenda and its accompanying reports can also be found on the Havant Borough Council website: [www.havant.gov.uk](http://www.havant.gov.uk)

### **Public Attendance and Participation**

Members of the public are welcome to attend the Public Service Plaza and observe the meetings.

Please note that the Hurstwood Room has very limited capacity to safely accommodate members of the public in a Covid secure manner. Please contact the named officer above if you wish to attend in person, otherwise we would encourage watching the meeting via the webcast on the Council's website.

This meeting is being recorded and the recording will be published on the council's website and be available to watch for up to six months from the date of the meeting. IP addresses are not collected, however in order to function, Microsoft Teams collects background data limited to the web browser version used. Data collected will be kept and recorded for the purposes of this meeting only.

### **Disabled Access**

The Public Service Plaza has full access and facilities for the disabled.

### **Emergency Procedure**

Please ensure that you are familiar with the location of all emergency exits which are clearly marked. In the unlikely event of an emergency an alarm will sound.

PLEASE EVACUATE THE BUILDING IMMEDIATELY.

DO NOT RE-ENTER THE BUILDING UNTIL AUTHORISED TO DO SO

### **No Smoking Policy**

The Public Service Plaza operates a strict No Smoking policy in all of its offices, corridors, meeting rooms and toilets.

### **Parking**

Pay and display car parking is available in the Leisure Centre car park opposite the Plaza.



**Havant**  
**BOROUGH COUNCIL**  
 Civic Offices, Havant, Hants, PO9 2AX  
 Telephone (023) 9247 4174

## HAVANT BOROUGH COUNCIL

At a meeting of the Audit and Finance Committee held on 28 July 2022

Present

Councillor: Inkster (Chairman)

Councillors: Linger (Vice-Chairman), Hughes and Patel

Other Councillor Denton  
Councillors

### 1 Apologies for Absence

Apologies for absence were received from Councillors Guest, Moutray, Diamond and Wade

### 2 Declarations of Interests

There were no declarations of interests relating to matters on the agenda.

### 3 Minutes

The Minutes of the meeting of the Audit and Finance Committee held on 27 April 2022 were agreed as a correct record and signed by the Chairman.

### 4 External Audit - Audit Results report for year ending 31 March 2021

The Committee received the Annual Results Report for year ending 31 March 2022 together with the Financial Report and Statement of Accounts for 2020/21.

The External Auditor reported that the outstanding matter relating to the assets register reported at the last meeting of the Committee had now been resolved and that subject to the final accounts and letter of representation being signed off by the Council, the External Auditors were prepared to sign off the accounts with an unqualified opinion.

The External Auditors and the interim Chief Finance Officer outlined the issues resolved and answered questions raised by Members of the Committee.

During the question session, the external auditors:

- (i) acknowledged that the last sentence on page 21 of the agenda should read:

“Given the current value of uncorrected errors (see Section 4, page 29), there is limited headroom compared to our materiality for further variances to arise.”; and

- (ii) Agreed to forward details of the reclassification of debtors to creditors referred to on page 31 of the results report to members of the Committees.

In response to concern raised by a member of the Committee relating to the number of issues identified in the results report, the Chief Finance Officer outlined the processes being undertaken to improve the finance structure.

Resolved that

- (a) The Statement of Accounts for 2020/21 be agreed and the Chairman and Section 151 Officer be authorised to certify the approval of the Accounts; and
- (b) The Chairman and Section 151 Officer be authorised to sign the letter of representation for 2020/21.

## **5 Annual Internal Audit Report and Opinion 2021-22**

The Committee considered the Annual Audit Report and Opinion 2021-22, as presented by Antony Harvey of the Southern Internal Audit Partnership.

The Committee's attention was drawn to the following points:

- (1) the Council's framework of governance, risk management and management control was considered to be 'Reasonable' and audit testing has demonstrated controls to be working in practice; and
- (3) although there was still room for improvement, there had been significant improvements in the issues identified in the previous audit.

In response to questions raised by members of the Committee:

- a the Internal Auditors agreed to supply more details of the procurement comments set out in the report;
- b the Interim Chief Finance Officer was aware of issues set out in the report, including debt management, and aim to redress these through the proposed restructuring of the finance team.
- c The Interim Chief Finance Officer agreed to provide details of the total debts owed to next meeting of this Committee
- d The Interim Chief Finance Officer outlined the improvements made to asset management and advised that the next stage would be to achieve best value from these assets.

In conclusion the Interim Chief Finance Officer reported that he would like to see a closer link between the external and internal auditors.

Councillor Denton advised the Committee that he was pleased to receive an unqualified report and thanked the officers and auditors for their work.

RESOLVED that the report be noted.

## **6 Corporate Governance and Risk Policy**

The Committee received a report requesting approval of the Corporate Governance & Risk Policy, incorporating the Local Code of Corporate Governance.

RESOLVED that

- a. the submitted Corporate Governance & Risk Policy be approved;
- b. the submitted Local Code of Corporate Governance be approved; and
- c. the submitted Risk Management Framework and the latest top corporate risks as per the Corporate Risk Register be noted.

## **7 Draft Annual Governance Statement**

The Committee was given an opportunity to comment on draft Annual Governance Statement prior to the final version coming for approval alongside the Statement of Accounts 2021-22.

RESOLVED that:

- 1 the submitted draft copy of the Annual Governance Statement 2021-22 be noted; and
- 2 the intention to report any comments for consideration in the final version to a future Audit & Finance Committee alongside the Statement of Accounts 2021-22 be noted

## **8 RIPA Policy**

The Committee received a report requesting approval of a submitted Regulation of Investigatory Powers Act (RIPA).

RESOLVED that the submitted Regulation of Investigatory Powers Act Policy be approved.

**The meeting commenced at 5.00 pm and concluded at 5.41 pm**

.....  
**Chairman**

This page is intentionally left blank



---

NON-EXEMPT

## HAVANT BOROUGH COUNCIL

AUDIT & FINANCE COMMITTEE

20 October 2022

### EXTERNAL AUDITORS ANNUAL REPORT (year ended 31 March 2021)

#### FOR NOTING

Portfolio Holder: Cllr Denton

Key Decision: No

---

Report Number: HBC/086/2022

#### 1. Purpose

- 1.1. This paper is submitted to Audit & Finance Committee to provide an update of the work undertaken by our external auditors, Ernst and Young, throughout the 2020/21 financial year. Key outcomes and findings are detailed within the report which is shown as Appendix A.

#### 2. Recommendation

- 2.1. Members are requested to note the external auditor report for year ended 31 March 2021.

#### 3. Executive Summary

- 3.1. Ernst and Young are the appointed external auditor for Havant Borough Council as determined through the Public Sector Audit Appointments, (PSAA), Framework.

3.2. The auditors provide an independent opinion on the council's financial statements, going concern status, annual governance statement and our approach for delivering value for money in the way in which the council operates.

3.3. Ernst and Young issued a (2020/21) Audit Results Report dated 19 July 2022 to the Audit and Finance Committee on 28 July 2022. In this work they issued an unqualified opinion concluding that: *the financial statements give a true and fair view of the financial position of the Council as at 31 March 2021 and of its expenditure and income for the year then ended. The financial statements have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21*

#### **4. Additional Budgetary Implications**

4.1. None.

#### **5. Background and relationship to Corporate Strategy and/or Business Plans**

5.1. The Council promotes and encourages strong governance throughout its operations and decision making. Having a robust, and independent, internal and external audit service are core components of such governance.

#### **6. Options considered**

6.1. Not applicable

#### **7. Resource Implications**

7.1. Financial Implications

The relevant funding for commissioning external audit services is established within the Council's base revenue budget

## 7.2. Legal Implications

### **Monitoring Officer comments**

Date:

## **8. Risks**

- 8.1. The core purpose of the Audit Committee's remit is to provide assurance regarding the authority's governance arrangement. Our external auditors consider relevant risk factors when determining the extent of coverage of their work on the council's financial statements.

## **9. Consultation and Communication**

- 9.1. Update reports from our external auditors are included within the council's published papers and are placed on the council's website.

## **10. Appendices**

- 10.1. Appendix A – Ernst and Young Auditor Report for the year ended 31 March 2021

Agreed and signed off by:

Monitoring Officer: Mark Watkins (insert date)

Section 151 Officer: Malcolm Coe (11/10/2022)

This page is intentionally left blank



## Havant Borough Council

Auditor's Annual Report  
Year ended 31 March 2021

04 August 2022



**EY**

Building a better  
working world

# Contents

<b>Section</b>	<b>Page</b>
<b>01 - Executive Summary</b>	<b>02</b>
<b>02 - Purpose and responsibilities</b>	<b>05</b>
<b>03 - Financial statements audit</b>	<b>07</b>
<b>04 - Value for Money</b>	<b>13</b>
<b>05 – Other reporting issues</b>	<b>26</b>
<b>Appendix 1 – Fees</b>	<b>28</b>

Public Sector Audit Appointments Ltd (PSAA) issued the "Statement of responsibilities of auditors and audited bodies". It is available from the PSAA website (<https://www.psaa.co.uk/audit-quality/statement-of-responsibilities/>). The 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 and further guidance (updated April 2018)" issued by the 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 in legislation, and covers matters of practice and procedure which are of a recurring nature.

This report is made solely to the Audit and Finance Committee and management of Havant Borough Council in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to the Audit and Finance Committee and management of Havant Borough Council those matters we are required to state to them in this report and for no other purpose. To the fullest extent permitted by law we do not accept or assume responsibility to anyone other than the Audit and Finance Committee and management of Havant Borough Council for this report or for the opinions we have formed. It should not be provided to any third-party without our prior written consent.

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 Hywel Ball, 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.

A close-up, high-angle portrait of a woman's face, focusing on her eyes and nose. She has light brown hair and green eyes. The image is partially obscured by a yellow rectangular overlay on the left side.

Section 1

## **Executive Summary**

## Executive Summary: Key conclusions from our 2020/21 audit

Area of work	Conclusion
<b>Opinion on the Council's:</b>	
Financial statements	We issued an unqualified opinion – the financial statements give a true and fair view of the financial position of the Council as at 31 March 2021 and of its expenditure and income for the year then ended. The financial statements have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21.
Going concern	We concluded that the Chief Finance Officer's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.
Consistency of the Statement of Accounts 2020/21 and other information published with the financial statements	We concluded that financial information in the Statement of Accounts 2020/21 and published with the financial statements was consistent with the audited accounts.

Area of work	Conclusion
<b>Reports by exception:</b>	
Value for money (VFM)	We had no matters to report by exception on the Council's VFM arrangements.  We have included our VFM commentary in Section 04.
Consistency of the annual governance statement	We concluded that we are satisfied that the annual governance statement was consistent with our understanding of the Council.
Public interest report and other auditor powers	We had no reason to use our auditor powers.



# Executive Summary: Key conclusions from our 2020/21 audit

As a result of the work we carried out we have also:

Outcomes	Conclusion
Issued a report to those charged with governance of the Council communicating significant findings resulting from our audit.	We issued an Audit Results Report dated 19 July 2022 to the Audit and Finance Committee on 28 July 2022.
Issued a certificate that we have completed the audit in accordance with the requirements of the Local Audit and Accountability Act 2014 and the National Audit Office's 2020 Code of Audit Practice.	We have not yet issued our certificate for 2020/21 as we have not yet performed the procedures required by the National Audit Office on the Whole of Government Accounts submission. The guidance for 2020/21 was delayed. We will liaise with the Council to complete this work.

## Fees

We carried out our audit of the Council's financial statements in line with PSAA Ltd's "Statement of Responsibilities of auditors and audited bodies" and "Terms of Appointment and further guidance (updated April 2018)". As outlined in the Audit Results Report we were required to carry out additional audit procedures to address audit risks in a number of areas. As a result, we intend to agree an associated additional fee with the Chief Finance Officer. We include details of the audit fees in Appendix 1.

We would like to take this opportunity to thank the Council staff for their assistance during the course of our work.

Kevin Suter

Partner  
For and on behalf of Ernst & Young LLP

Section 2

## Purpose and responsibilities

# Purpose and responsibilities

---

This report summarises our audit work on the 2020/21 financial statements.

---

## **Purpose**

The purpose of the auditor's annual report is to bring together all of the auditor's work over the year. A core element of the report is the commentary on VFM arrangements, which aims to draw to the attention of the Council or the wider public relevant issues, any recommendations arising from the audit and follow-up of recommendations issued previously, along with the auditor's view as to whether they have been implemented satisfactorily.

## **Responsibilities of the appointed auditor**

We have undertaken our 2020/21 audit work in accordance with the Audit Plan that we presented to the Audit and Finance Committee on 27 April 2022. We have complied with the NAO's 2020 Code of Audit Practice, International Standards on Auditing (UK), and other guidance issued by the NAO.

As auditors we are responsible for:

Expressing an opinion on:

- The 2020/21 financial statements;
- Conclusions relating to going concern; and
- The consistency of other information published with the financial statements, including the annual report.

Reporting by exception:

- If the governance statement does not comply with relevant guidance or is not consistent with our understanding of the Council;
- If we identify a significant weakness in the Council's arrangements in place to secure economy, efficiency and effectiveness in its use of resources; and
- Any significant matters that are in the public interest.

## **Responsibilities of the Council**

The Council is responsible for preparing and publishing its financial statements, and governance statement. It is also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Section 3

# Financial Statement Audit



# Financial Statement Audit – Havant Borough Council

## Key issues

We issued an unqualified audit opinion on the Council's 2020/21 financial statements on 29 July 2022.

The Annual Report and Accounts is an important tool for the Council to show how it has used public money and how it can demonstrate its financial management and financial health.

We issued an unqualified opinion on the financial statements. We reported our final Audit Results Report to the 28 July meeting of the Audit and Finance Committee. We outline below the key issues identified as part of our audit, reported against the significant risks and other areas of audit focus we included in our Audit Plan.

Significant risk	Conclusion
<p><b>Misstatements due to fraud or error - management override of controls</b></p> <p>An ever present risk that management is in a unique position to commit 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.</p>	<p>We did not identify any:</p> <ul style="list-style-type: none"> <li>material weaknesses in controls or evidence of material management override;</li> <li>instances of inappropriate judgements being applied; or</li> <li>any other transactions during our audit which appear unusual or outside the Council's normal course of business.</li> </ul>
<p><b>Inappropriate capitalisation of revenue expenditure</b></p> <p>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 identified opportunity and incentive to capitalise expenditure under the accounting framework, to remove it from the general fund.</p>	<p>In response to the risk we tested capital additions to ensure that the expenditure incurred and capitalised was clearly capital in nature. We identified no instances where expenditure had been inappropriately capitalised. However, during our testing of additions we did identify an overstatement of £117k relating to professional fees capitalised in the incorrect financial year. We considered this to be an error, and not caused by deliberate misstatement. Management opted not to correct the accounts for this misstatement on the basis of immateriality.</p>

Continued over.

# Financial Statement Audit – Havant Borough Council (continued)

Significant Risk	Conclusion
<p><b>Valuation of investment property</b></p> <p>The fair value of Investment Properties represent a significant balance in the Authority's accounts and are subject to valuation changes and market fluctuations. Management is required to make material judgements and apply estimation techniques to calculate the year-end balance recorded in the balance sheet. 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. We made use of our own professionally qualified valuation specialists to support our work in this area.</p>	<p>One misstatement was identified in relation to Basepoint Brambles Plot 8 where the income figure used by the external valuer was incorrect resulting in an overstatement of £437k. We identified one further error where the asset register was not updated with the valuation for 2020/21 for Warblington Castle Farm resulting in an overstatement of £305k. Management corrected the accounts for these issues</p>

## Financial Statement Audit – Havant Borough Council (continued)

Other area of audit focus	Conclusion
<p><b>Valuation of operational Land and Buildings</b></p> <p>The fair value of Property Plant and Equipment represents a significant balance in the Council's accounts and is subject to valuation changes, impairment reviews and depreciation charges. Management is required to make material judgemental inputs and apply estimation techniques to calculate the year-end balances recorded in the balance sheet.</p>	<p>We reviewed the work performed by a review of the Council's valuer, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work. We sample tested a selection of assets.</p> <p>Our work in this area identified the following errors:</p> <ul style="list-style-type: none"> <li>• The valuer used a comparable market value from amenity land for the calculation of community centre land values and we do not believe this is an appropriate comparison and resulted in an understatement of land values of £940k. Management opted not to correct the accounts for this misstatement.</li> <li>• during our work on valuations we identified completeness issues with the fixed asset register. Management undertook a reconciliation exercise between the fixed asset register, and other sources of property information. This resulted in a long list of assets that were inconsistent between the two sources;</li> <li>• We tested a sample of these assets to ensure that where amendments were identified these were correct, and also tested where the council asserted the items should not be in the accounts or had £nil value. Through this exercise a net understatement of £441k was identified which management corrected.</li> <li>• We identified incorrect classifications and valuation methods on the fixed asset register, although the actual classifications and valuation methods applied to the asset valuations were correct. We recommended that management update the asset register to reflect the correct classification and valuation method for all assets.</li> </ul>
<p><b>Pension liability valuation</b></p> <p>The Pension Fund liability is a material balance in the Balance Sheet. 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.</p>	<p>We obtained assurances from the auditors of Hampshire Pension Fund that the information supplied to the actuary in relation to Havant Borough Council was accurate and complete.</p> <p>An adjustment of £183k was required as a result of our work to reflect the Council's share of the difference between the estimated value of Pension Fund assets the final audited value.</p> <p>We have reviewed the work of the actuaries. We challenged the actuarial valuation and found no indication of management bias in this estimate, and the assumptions were reasonable.</p>

## Financial Statement Audit – Havant Borough Council (continued)

Other area of audit focus	Conclusion
<p><b>Going concern disclosures</b></p> <p>The Council is required to carry out an assessment of its ability to continue as a going concern for the foreseeable future, being at least 12 months after the date of the approval of the financial statements. There is a risk that the Council's financial statements do not adequately disclose the assessment made, the assumptions used and the relevant risks and challenges that have impacted the going concern period.</p>	<p>Our review of management's continued use of the going concern assumption concludes it remains appropriate. We reviewed the proposed going concern disclosures for inclusion in the financial statements and proposed relatively minor updates which management made. 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.</p> <p>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.</p>
<p><b>Accounting for Covid-19 related grant funding</b></p> <p>The Council has received a significant level of government funding in relation to Covid-19. Whilst there is no change in the CIPFA Code or accounting standard (IFRS 15) in respect of accounting for grant funding, the emergency nature of some of the grants received and in some cases the lack of clarity on any associated restrictions and conditions, means that the Council will need to apply a greater degree of assessment and judgement to determine the appropriate accounting treatment in the 2020/21 statements.</p>	<p>Where the Council acted as principal, because it has the control over the allocation of the funding to the beneficiaries of these grants then these should be processed through the Comprehensive Income and Expenditure Statement (CIES).</p> <p>For those grants received where the Council is acting as an agent – passing on the funds without any discretion - we would not expect these to be processed through the (CIES) but would expect to see the amounts received disclosed in the notes to the accounts.</p> <p>Based on the work performed we were not satisfied with the accounting treatment adopted for some of the Covid-19 related government grants as the draft accounts classified the Additional Restrictions Grant and the Local Restrictions Support Grant on an agency basis. Local councils have the freedom to determine the eligibility criteria for these grants, therefore, they should be recognised as a principal grant within the income and expenditure of the Council. By treating these on an agency basis the Council only recorded the receipts within the disclosure notes of the draft accounts and not in the CIES. The grants totalled £1.6m and management amended the accounts.</p>



# Financial Statement Audit – Havant Borough Council (continued)

## Audit differences

Other than the differences identified above, we also identified the following misstatements which management have corrected:

- Debtors – £245k held as a credit to debtors has been reclassified to creditors;
- Housing Benefit Overpayment - £813k relating to overpayment of Housing Benefit was held as income rather than netting off within expenditure
- Reclassification of Infrastructure assets to OLB (£668k), VPE (£344k) and AUC (£290k), due to being incorrectly classified as infrastructure
- A relatively high number of errors and misstatements in disclosures ranging from casting errors to incomplete and missing disclosure notes, prior year figures and financial years not being updated, incorrect descriptions, formatting errors and incorrect referencing.

## Our application of materiality

When establishing our overall audit strategy, we determined a magnitude of uncorrected misstatements that we judged would be material for the financial statements as a whole.

Item	Thresholds applied
<b>Planning materiality</b>	We determined planning materiality to be £1.448m as 2% of gross revenue expenditure reported in the accounts. We consider gross revenue expenditure to be one of the principal considerations for stakeholders in assessing the financial performance of the Council.
<b>Reporting threshold</b>	We agreed with the Audit and Finance Committee that we would report to the Committee all audit differences in excess of £0.072m.

Section 4

## Value for Money

# Value for Money (VFM)

---

We did not identify any risks of significant weaknesses in the Council's VFM arrangements for 2020/21.

## Scope and risks

We have complied with the NAO's 2020 Code and the NAO's Auditor Guidance Note in respect of VFM. We presented our VFM risk assessment, completed and issued in November 2021, to the 27 April 2022 Audit and Finance Committee meeting, which was based on a combination of our cumulative audit knowledge and experience, our review of Council and committee reports, meetings with senior officers and evaluation of associated documentation through our regular engagement with management and the finance team. We reported that we had not identified any risks of significant weaknesses in the Council's VFM arrangements for 2020/21.

---

We had no matters to report by exception in the audit report.

## Reporting

We completed our planned VFM arrangements work and did not identify any significant weaknesses in the Council's VFM arrangements. As a result, we had no matters to report by exception in the audit report on the financial statements.

---

Our VFM commentary highlights relevant issues for the Council and the wider public.

## VFM Commentary

In accordance with the NAO's 2020 Code, we are required to report a commentary against three specified reporting criteria:

- Financial sustainability  
How the Council plans and manages its resources to ensure it can continue to deliver its services.
- Governance  
How the Council ensures that it makes informed decisions and properly manages its risks.
- Improving economy, efficiency and effectiveness:  
How the Council uses information about its costs and performance to improve the way it manages and delivers its services.

## Introduction and context

The 2020 Code confirms that the focus of our work should be on the arrangements that the audited body is expected to have in place, based on the relevant governance framework for the type of public sector body being audited, together with any other relevant guidance or requirements. Audited bodies are required to maintain a system of internal control that secures value for money from the funds available to them whilst supporting the achievement of their policies, aims and objectives. They are required to comment on the operation of their governance framework during the reporting period, including arrangements for securing value for money from their use of resources, in a governance statement.

We have previously reported the VFM work we have undertaken during the year including our risk assessment. The commentary below aims to provide a clear narrative that explains our judgements in relation to our findings and any associated local context.

For 2020/21, the significant impact that the Covid-19 pandemic has had on the Council has shaped decisions made, how services have been delivered and financial plans have necessarily had to be reconsidered and revised.

We have reflected these national and local contexts in our VFM commentary.

Our commentary relates to the year-ended 31 March 2021, and does not significantly take into account the subsequent decision by the Council to separate it's joint working with East Hampshire District Council although we reference this decision and future impact in places.

## Financial sustainability

*How the body ensures that it identifies all significant financial pressures that are relevant to its short term and medium-term plans and builds these into them*

---

The Council has had the arrangements we would expect to see to enable it to plan and manage its resources to ensure that it can continue to deliver its services.

Arrangements took into account the impact of the Covid-19 pandemic.

---

Risk areas are identified via regular monitoring and review as part of budget setting. These are built into the Medium Term Financial Strategy (MTFS) as appropriate. The MTFS is reviewed annually as part of the budget setting exercise. Assumptions are made on reductions on government funding, staffing inflation costs, other inflationary pressures and contract uplifts as well as any known service cost increases, such as additional expenditure on producing the Local Plan. The MTFS is a 5-year projection of net expenditure and funding sources with gaps highlighted, usually as a result of reduced funding from central government.

As a result of the financial gap going forward a transformation programme was initiated to look at a new operating model in order to deliver the right services for residents and reducing costs where possible. The Council's transformation programme will review all areas of the Council looking at best ways for future delivery. Savings will be incorporated into future MTFS planning and budgets as they materialise.



## Financial sustainability (continued)

### How the body plans to bridge its funding gaps and identifies achievable savings

The Council's transformation programme is regularly reported to Members. Although gaps are identified in the latest MTFs, the aim is to make good the gaps via transformation. Transformation will still happen post changes in working announced in January with East Hampshire DC, and the Council is looking to ensure this is tailored to the needs of Havant Borough Council.

Additionally, a Budget working group has been set up as part of the budget setting papers in order to review the base budgets and look for savings in the short term.

---

The Council has had the arrangements we would expect to see to enable it to plan and manage its resources to ensure that it can continue to deliver its services.

The Budget Working group has been established as part of the 'Credible Plan' response to the future financial risks highlighted by the s151 officer including from the intention to end the joint management arrangements with East Hampshire District Council.

### How the body plans finances to support the sustainable delivery of services in accordance with strategic and statutory priorities

---

Funding gaps are addressed through the Council's transformation programme as well as a Budget working group

The Council recently updated its Corporate Strategy and a new document was approved alongside the budget in February 2022. The new Corporate Strategy sets out the key strategic priorities and gives a timeframe for delivery. The new strategy is aligned to the transformation programme aspirations and agreed budget. As part of the transformation programme services have been reviewed and placed in one of 4 categories, based on efficiency and priority: Invest to Save, Invest to Improve, Incremental Cost Reduction and Urgent Action. The aim is to target resources to the highest priority group and move resources away from the lower priority services. This work will be done by the established budget working group which forms part of the 'Credible Plan' response to the budget of 2022-23, which includes the Terms of Reference for the budget working group.

## Financial sustainability (continued)

How the body ensures that its financial plan is consistent with other plans such as workforce, capital, investment, and other operational planning which may include working with other local public bodies as part of a wider system

These are considered as part of the budget setting work. The transformation programme has identified areas to review and these are done holistically within the areas of service delivery. Any papers coming forward which contain changes to operations or proposed agreement to new strategies are subject to a review and sign-off by firstly legal and finance officers and secondly by the Monitoring Officer and Section 151 Officer. Papers have a specific section on 'Additional Budgetary Implications' where details of any changes in budget requirements are outlined. The papers have detailed guidance which sets out what financial information is expected to be included and this is reviewed as above by finance officers and then signed off by the Section 151 Officer.

---

The Council has had the arrangements we would expect to see to enable it to plan and manage its resources to ensure that it can continue to deliver its services.

Finances link to the Corporate Strategy, transformation programme and other organisational plans.

The capital programme is approved as part of the budget setting process. Any new capital bids that come in during the year are subject to completion of a business case and review prior to being added to the approved Capital programme. Likely new capital bids are highlighted each year through the budget setting exercise and shown within the budget papers.

Partnership budgets are agreed alongside the annual budget, any changes to partnership budgets would require the necessary report and approval. Partnership budgets are monitored through the regular budget monitoring process.

How the body identifies and manages risks to financial resilience, e.g. unplanned changes in demand, including challenge of the assumptions underlying its plans

Identified risks are considered at Executive Board and, where appropriate, at cabinet liaison. Unplanned risks, such as the pandemic, are monitored and compensating savings or use of earmarked reserves considered as appropriate. During the pandemic a full budget review exercise was undertaken to identify budget savings in year as a result of changes in activity to respond to the pandemic. The savings which were identified during this exercise were used to cover reduced income and increased pandemic spending. Councillors were kept up to date by regular reporting of financial performance.

If required, financial resilience reserves are also available to be utilised at short notice.

## Financial sustainability (continued)

---

The Council has had the arrangements we would expect to see to enable it to plan and manage its resources to ensure that it can continue to deliver its services.

Regular monitoring and reporting manages risks, including from the pandemic.

---

The Council commissioned a report on financial resilience from CIPFA, in light of the intent to exit the joint management team arrangements with East Hampshire District Council. This report concluded there were adequate resources for future plans and service redesign. However, the report highlighted some significant risks in this regard which the Council will need to mitigate against. This includes the financial impacts and the need to provide a detailed proposal for the use of transformation reserves. This activity is taking place after the year to which our assessment relates and does not indicate, any significant weakness for the year to 31 March 2021. We note this issue because it is a major development for the Council, and we will reflect on it further for our risk assessment and conclusion on financial sustainability in subsequent audit periods. Based on current evidence, the Council is responding to the concerns raised by the CIPFA review.

## Governance

*How the body monitors and assessed risk and how the body gains assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud*

Internal Audit (IA) have a programme of audits covering a number of areas across the organisation, in particular finance, in order to provide independent assurance. IA provides quarterly progress updates to the Audit and Finance Committee. For 20/21 the IA opinion was “Havant Borough Council’s framework of governance, risk management and control is ‘Reasonable’ and audit testing has demonstrated controls to be working in practice.”

---

The Council has had the arrangements we would expect to see to enable to make informed decisions and properly manage its risks.

Risk management is an integrated process with everyday management of the Council. Processes were amended during the pandemic, focusing on the Council’s response and recovery.

Good arrangements are in place for Internal Audit, and to counter fraud.

---

In addition, Corporate Governance Board (officers only) review all Internal Audit Management Actions and track progress at quarterly meetings in order to ensure actions are progressed in a timely manner. Outstanding management actions are reported through both the Internal Audit Quarterly Reports to Audit and Finance Committee as well as the Quarterly Performance Dashboard reported to all Members and published on the website.

The Council has an Anti-fraud and Corruption Policy including a response plan: <https://havant.moderngov.co.uk/ecSDDisplay.aspx?NAME=SD953&ID=953&RPID=1964019>

The full suite of Governance policy can be viewed at: <https://havant.moderngov.co.uk/ecCatDisplay.aspx?sch=doc&cat=14206>

In addition the Annual Governance Statement (AGS) undertakes a questionnaire each year with staff which informs the production of the document. The AGS also provides a full narrative of Governance matters and where to find information. The AGS is reviewed by the Audit and Finance Committee.



## **Governance (continued)**

### How the body approaches and carries out its annual budget setting process

The annual budget setting process follows a set timetable each year. Draft budgets are shared with Heads of Service and budget holders to review to identify pressures and savings and are then further scrutinised during the approval process.

The budget is reviewed by Cabinet, all Members are briefed, Overview and Scrutiny then have the opportunity to review and consider prior to final review by Cabinet and approval by Full Council.

---

### How the body ensures effective processes and systems are in place to ensure budgetary control; to communicate relevant, accurate and timely management information (including non-financial information where appropriate); supports its statutory financial reporting requirements; and ensures corrective action is taken where needed

The Council has had the arrangements we would expect to see to enable to make informed decisions and properly manage its risks.

Annual budgeting processes are appropriate, and effective arrangements are in place to manage the budget through the year.

The Council monitors both financial and non-financial performance through the quarterly reporting process. Each month budget holders are sent a request to complete their forecast for year-end spend against budget. At each quarter end a thorough review is undertaken by budget managers and finance business partners resulting in quarterly financial reporting provided to Councillors. In addition, non-financial information at quarter end is requested, for example progress against business plans and key performance indicators. This information, alongside the financial information forms the quarterly report pack of information. Reports are provided to Cabinet and Audit Committee to review progress and uploaded onto the Council's website.

---

Cabinet is presented with a pack of information including budget, spend to date and forecast outturn as well as progress against business plan and key performance indicators. This allows for Cabinet members to ask questions and review the latest performance, both financial and non-financial information.

Audit and Finance Committee are presented with the same information as Cabinet and allowed the opportunity to further review and ask questions to the Section 151 Officer and Finance Cabinet lead.

At year end a full narrative outturn report is produced as part of the year end accounts process and these are provided to Audit and Finance Committee in both draft and final form.

## **Governance (continued)**

*How the body ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency. This includes arrangements for effective challenge from those charged with governance/Audit Committee*

The Constitution, including the Schemes of Delegation, sets out how different decisions are made, including who has responsibility for making them and what procedures should be followed. The Constitution was thoroughly reviewed and updated in 2020/21.

The authority operates through a Leader and Cabinet model with a scrutiny function in place to scrutinise decisions made or call in potential decisions. Scrutiny sets out its work programme and reviews the work programme at each meeting.

---

The Council has had the arrangements we would expect to see to enable to make informed decisions and properly manage its risks.

The Authority has report templates and guidance 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 relevant Cabinet lead. All reports require sign off from the Section 151 Officer, Monitoring Officer and relevant Cabinet lead, in addition, prior to sign off, a review of the report is undertaken by legal and finance officers to ensure that financial and legal implications are fully considered.

Decisions are made following the Constitution, considering legal and financial responsibilities.

All Key Decisions are published prior to being made and included on the Council Forward Plan which is published and updated regularly for review by any Councillor or member of the public.

---

All decision-making meetings are held in public and decisions made are published in line with the statutory legal requirements, although some items are considered exempt due to commercial nature. Minutes of all Council meetings are made available to the public and members of the public have the opportunity to contribute to Council meetings.

All decision are subject to scrutiny and can be called into Overview and Scrutiny if required.

## **Governance (continued)**

*How the body monitors and ensures appropriate standards, such as meeting legislative/regulatory requirements and standards in terms of officer or member behaviour (such as gifts and hospitality or declarations/conflicts of interests)*

The Authority has a Standards Committee which meets regularly.

The role of the Standards Committee is to promote, sustain and safeguard the behaviour of members within the Council and the probity of all the Council's proceedings.

Full details on its roles and responsibilities can be found in the Council's constitution.

---

The Council has had the arrangements we would expect to see to enable to make informed decisions and properly manage its risks.

Appropriate arrangements are in place to ensure the Council meets appropriate standards in behaviours.

---

There are a number of policies such as code of conduct, councillor/officer relations and gifts and hospitality guidance – all these documents can be found on the Council's website.

Any concerns or issues with respect to legislative/regulatory requirements would be raised with Human Resources, Data Protection Officer and/or Monitoring Officer for review and consideration. Advice would then be provided, steered by the policy in place as to the route to take in terms of disciplinary or report to Standards Committee. Complaint procedures are in place which can also be utilised if necessary, and if required complaints can be escalated to Local Government Ombudsman. The Corporate Governance Board is in place to consider issues around legislative or regulatory failings and has standing items covering updates from Head of Organisational Development (HR), updates from the Data Protection Officer and updates on current number of Local Government Ombudsman complaints.

All new employees to the authority are briefed as part of their induction into the various policies and procedures around Code of Conduct and this is also included in the Councillor induction.

In accordance with the Local Government Transparency Code 2015 details of any information with respect to counter fraud work are published on the Council's website.

## **Improving economy, efficiency and effectiveness**

### *How financial and performance information has been used to assess performance to identify areas for improvement*

The Council monitors both financial and non-financial performance through the quarterly reporting process. Reports are provided to Cabinet and Audit and Finance Committee to review progress and uploaded onto the Council's website.

The budget monitoring and performance report highlights areas for improvement and considered actions. For example, any area that is forecasting an overspend, narrative is supplied as to the reasoning and appropriate mitigations that are in place. In addition a corporate wide response by the finance terms is considered as to any actions that are required to reduce any potential overspend. When the reports are reviewed by Executive Board consideration is given as to what actions can be further taken to mitigate any potential overspends. The same process applies for non-financial performance, whereby those measures and action plans that are not achieving as intended are given a RAG (red/amber/green) rating with supporting commentary about how to move towards an improved position.

---

The Council has had the arrangements we would expect to see to enable it to use information about its costs and performance to improve the way it manages and delivers services.

Financial and performance information are used to assess services.

---

### *How the body evaluates the services it provides to assess performance and identify areas for improvement*

As above – any budgets that are forecast to vary from budget are highlighted in the quarterly report with supporting commentary and the performance report includes a RAG of Corporate Action Plan progress and key performance indicators and identifies where improvement actions are being taken

A year end summary of performance is provided as part of the outturn report and Annual Statement of Accounts.

In addition, resident surveys are held occasionally to gain insight and feedback on performance of the council from a residents perspective. This information is then fed into the corporate planning cycle. The most recent residents survey has focused on the council response to the pandemic and the results can be found here: <https://www.havant.gov.uk/coronavirus-residents-survey>

Businesses are also regularly contacted and engaged through our Economic Development team with a range of support provided, see <https://www.havant.gov.uk/businesses>

## **Improving economy, efficiency and effectiveness (continued)**

*How the body ensures it delivers its role within significant partnerships, engages with stakeholders it has identified, monitors performance against expectations, and ensures action is taken where necessary to improve*

The Council undertakes regular performance monitoring, which goes to members quarterly. This is integrated with the financial monitoring and issues of concern are reviewed and actioned where improvement is required.

The Council maintains a list of its significant contracts and this includes its partnerships.

---

The Council has had the arrangements we would expect to see to enable it to use information about its costs and performance to improve the way it manages and delivers services.

Major contracts, such as Norse South East and Capita have dedicated officers who monitor and report on performance of those partnerships. Performance is reported either through existing mechanisms within each partnership model and/or through the regular quarterly performance monitoring process as articulated above. Where necessary, for example with Norse, senior officers are appointed to sit on the appropriate Board in order to monitor performance. The Coastal Partnership, led by Havant, has a dedicated Head of Service who oversees and reports how the partnership is performing.

The Council has a range of partnership arrangements, which are quarterly reviewed.

---

Partnership governance is also reviewed by Internal Audit through its regular audit programme and also reported within the Annual Governance Statement.

## Improving economy, efficiency and effectiveness (continued)

Where the body commissions or procures services, how the body ensures that this is done in accordance with relevant legislation, professional standards and internal policies, and how the body assesses whether it is realising the expected benefits

The Council employs a Procurement team to assist with carrying out procurement processes and ensuring they met the relevant legislative and professional standards of procurement.

---

The Council has had the arrangements we would expect to see to enable it to use information about its costs and performance to improve the way it manages and delivers services.

Procurement arrangements are appropriate, and contracts are managed after the procurement process.

---

Services are required to liaise with the procurement team when undertaking significant purchasing decisions and ensure that the right process is followed. The procurement team provide guidance on templates to be completed. An electronic system for ordering or requesting quotes or tenders for any goods or service over £10,000 in value is in place and this is done through the PROACTIS ProContract Portal. This system provides user guides and ensures that relevant legislation, standards and processes are followed accordingly.

Details of contracts are published online, and major contracts consist of Capita (IT, Revenue & Benefits and Customer Services) and Norse (environmental waste services).

Rules on providing goods and services are published on the Council's website and included within the constitution in terms of delegated authority to spend monies. Regular reporting of Council spend over £500 is published as required. The Council publishes information on its website on many areas of Council spend to demonstrate to its residents how council tax payer's money is spent.

Once a contract is in place an officer or team will be responsible for ensuring that it achieves against its original aims. For the large contracts these are monitored as described above in terms of council performance reporting and individual mechanisms established to monitor performance within each contract, for example, the Capita contract has a series of key performance indicators which are monitored through the Client Relationship Team and reported through the Client Relationship Director. Regular meetings will be held between the relevant contract manager and partner to review performance and if required poor performance is escalated, firstly through the contract mechanisms and secondly through the reporting of performance to Executive Board and/or Cabinet.

Internal Audit as part of their programme of work would routinely look at contract procurement and/or contract performance.





Section 5

## Other Reporting Issues

## Other Reporting Issues

### **Governance Statement**

We are required to consider the completeness of disclosures in the Council's annual governance statement, identify any inconsistencies with the other information of which we are aware from our work, and consider whether it complies with relevant guidance.

We completed this work and did not identify any areas of concern.

### **Whole of Government Accounts**

We have not yet performed the procedures required by the National Audit Office (NAO) on the Whole of Government Accounts consolidation pack submission. The guidance for 2020/21 has only recently been issued and we will liaise with the Council to complete this work.

### **Report in the Public Interest**

We have a duty under the Local Audit and Accountability Act 2014 to consider whether, in the public interest, to report on any matter that comes to our attention in the course of the audit in order for it to be considered by the Council or brought to the attention of the public.

We did not identify any issues which required us to issue a report in the public interest.

### **Other powers and duties**

We identified no issues to date during our audit that required us to use our additional powers under the Local Audit and Accountability Act 2014.

### **Control Themes and Observations**

As part of our work, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. 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 identified during our audit.

We have adopted a fully substantive approach and have therefore not tested the operation of controls.

Our audit identified the following control issues to bring to the attention of the Audit and Finance Committee:

- The Council disposed of land at Brockhampton during the year, but this was not included on the asset register. The rationale provided was that this land had £nil value, and hence didn't require recording. As the asset was not included on the asset register, the Council were unable to undertake the appropriate accounting considerations under the Code regarding the financial reporting. It was unable to demonstrate considerations of transfer to Assets Held for Sale when the relevant criteria were met, and the Code's requirement of an immediate valuation and assessment of its appropriate carrying value until disposal;
- Sampling of debtor and creditor balances was impeded by the Council being unable to provide clean listings of the amounts on the balance sheet as at 31 March 2021. Listings often contained opening balances and movements during the year, not the final balances. The lack of clean listings impeded the efficiency of the audit as it took time to provide listings, and when provided samples often had to be returned and replaced because the items were not debtor or creditor balances as at 31 March. The wider implication is that if listings cannot be provided for the audit process, there may be further weaknesses in the Council's ability to manage its creditors and debtors.



Appendix A

## Audit Fees

## Audit Fees – Havant Borough Council

The scale fee for 2020/21 is in line with the audit fee reported in our Audit Plan and Audit Results Report. Included below are details of the proposed additional fees for 2020/21.

We undertook no non-audit work.

Description	Final Fee 2020/21	Planned Fee 2020/21	Final Fee 2019/20
	£	£	£
<b>PSAA Scale Fee</b>	36,036	36,036	36,036
Proposed scale fee rebasing (Note 1)	35,813	34,998	49,796
Other proposed fee variation (Note 3)	29,744	26,382	(Note 2)
Value for money work (Note 4)	6,069	-	-
Impact of new accounting requirements of ISA 540 (Note 4)	2,847	-	-
<b>Total Fees</b>	<b>110,509</b>	<b>97,416</b>	<b>85,832</b>

Note 1 - In order to meet regulatory and compliance audit requirements not present in the market at the time of our most recent bid to PSAA, we assessed in 2019/20 that the recurrent cost of additional requirements to carry out our audit should increase by £34,998. We have continued to include this increase at the same audit inputs, adjusted for any aspects no longer relevant to the rebasing, but updated for PSAA's 25% increase in the scale fee variation fee rates for 2020/21.

Note 2 – Together with the rebasing proposal, for 2019/20 we submitted a variation of £40,639. PSAA determined both together, for the total of £49,796.

Note 3 – We propose an in-year variation of £29,744 for issues encountered during the audit, as set out in this report including investment property and other land and buildings valuations, going concern disclosures, accounting for covid-19 related grant income and significant difficulties experienced during the audit.

Note 4 – We have also included variations for new Code and ISA requirements, based on the lower end of PSAA's communicated expected ranges. This relates to PSAA's published 'Additional information for 2020/21 audit fees' in August 2021. PSAA commissioned external independent technical research for setting standardised fee variations to assess the expected impact on audit work programmes for requirements relating to the new VFM requirements under the NAO's 2020 Code of Audit Practice (£6k - £11k), and the revised auditing standard on estimates ISA540 (minimum £2.5k).

**EY | Assurance | Tax | Transactions | Advisory**

**Ernst & Young LLP**

© Ernst & Young LLP. Published in the UK.  
All Rights Reserved.

The UK firm Ernst & Young LLP is a limited liability partnership  
registered in England and Wales  
with registered number OC300001 and is a member firm of Ernst &  
Young Global Limited.

Ernst & Young LLP, 1 More London Place, London, SE1 2AF.

[ey.com](http://ey.com)

This page is intentionally left blank

---

NON-EXEMPT

## HAVANT BOROUGH COUNCIL

AUDIT AND FINANCE COMMITTEE

20 OCTOBER 2022

---

### INTERNAL AUDIT PROGRESS REPORT 2022-23 (SEPTEMBER 2022)

#### FOR NOTING

Portfolio Holder: Cllr Denton

Key Decision: No

Report Number: HBC/088/2022

#### 1. Purpose

- 1.1. The purpose of this paper is to provide the Audit and Finance Committee with an overview of internal audit activity against assurance work completed in accordance with the approved audit plan and to provide an overview of the status of 'live' reports.

#### 2. Recommendation

- 2.1. That the Audit and Finance Committee note the Internal Audit Progress Report, reflecting progress to 30<sup>th</sup> September 2022, attached as Appendix 1.

#### 3. Executive Summary

- 3.1. In accordance with the Public Sector Internal Audit Standards and the Council's Internal Audit Charter, the Chief Internal Auditor is required to provide a written status report to Audit and Finance Committee summarising:

*'communications on the internal audit activity's performance relative to its plan.'*

The Internal Audit Progress Report, attached as Appendix 1, summarises the performance of Internal Audit for 2022-23 to 30<sup>th</sup> September 2022.

**4. Additional Budgetary Implications**

4.1. None directly from this report.

**5. Background and relationship to Corporate Strategy, Climate & Environment Strategy and/or Business Plans**

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

**6. Options considered**

6.1. Not applicable.

**7. Resource Implications**

7.1. Financial Implications

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

**Section 151 Officer comments**

Date: 10 October 2022

The base budget for Internal Audit services provides for 300 days per annum. The actual audit reviews undertaken are subject to a risk assessment, and subsequent approval of an annual internal audit plan with update reports provided to this committee.

7.3. Human Resources Implications

None directly from this report.

7.4. Information Governance Implications

None directly from this report.

7.5. Other resource implications

None directly from this report

## **8. Legal Implications**

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

### **Monitoring Officer comments**

Date:

## **9. Risks**

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

## **10. Climate & Environment Implications**

10.1. None directly from this report.

## **11. Consultation**

11.1. This report has been discussed with the Council's Section 151 Officer who has regular update meetings with the Deputy Head of Southern Internal Audit partnership.

## **12. Communication**

12.1. None directly from this report.

## **13. Appendices**

13.1. Appendix 1 - Internal Audit Progress Report 2022-23 (September 2022).

## **14. Background papers**

14.1. Internal Audit Plan 2022-23. Audit and Finance Committee 27 April 2022. Agenda item 8.



Agreed and signed off by:

Portfolio Holder: Councillor Tony Denton

Director: Malcolm Coe – Chief Finance Officer

Monitoring Officer: Mark Watkins

Section 151 Officer: Malcolm Coe

**Contact Officer**

Name: Antony Harvey

Job Title: Deputy Head of Southern Internal Audit Partnership

Telephone: 07784 265289

E-mail: [antony.harvey@hants.gov.uk](mailto:antony.harvey@hants.gov.uk)

## Internal Audit Progress Report 2022-23

September 2022

Havant Borough Council



---

**Southern Internal  
Audit Partnership**

Assurance through excellence  
and innovation

**Contents:**

1.	Role of Internal Audit	3
2.	Purpose of report	4
3.	Performance dashboard	5
4.	Analysis of 'Live' audit reviews	6-7
5.	Executive summaries 'Limited' and 'No' assurance opinions	7
6.	Planning and resourcing	8
7.	Rolling work programme	8-9
Annex 1	Adjustments to the plan	10
Annex 2	Pre 2020-21 Audit Opinion Definitions	11

## 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 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’.*

Havant Borough 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. Purpose of report

In accordance with proper internal audit practices (Public Sector Internal Audit Standards), and the Internal Audit Charter the Chief Internal Auditor is required to provide a written status report to ‘Senior Management’ and ‘the Board’, summarising:

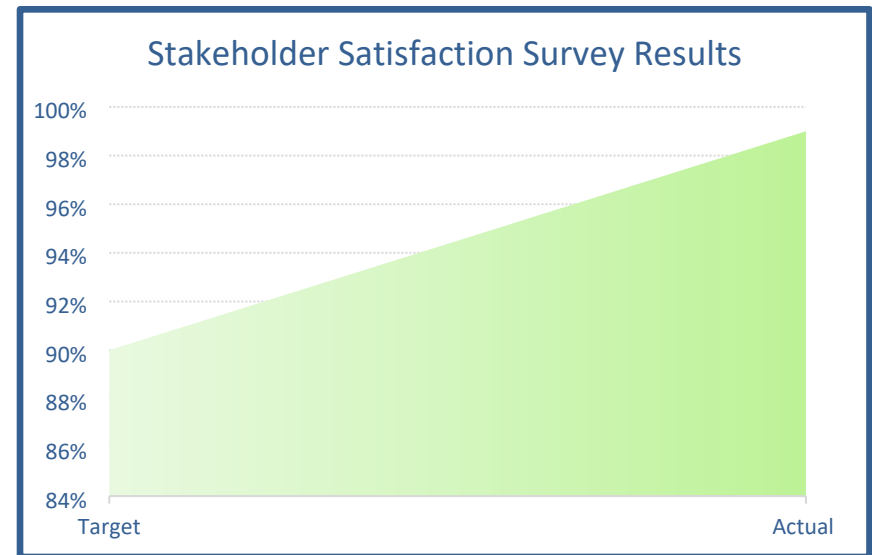
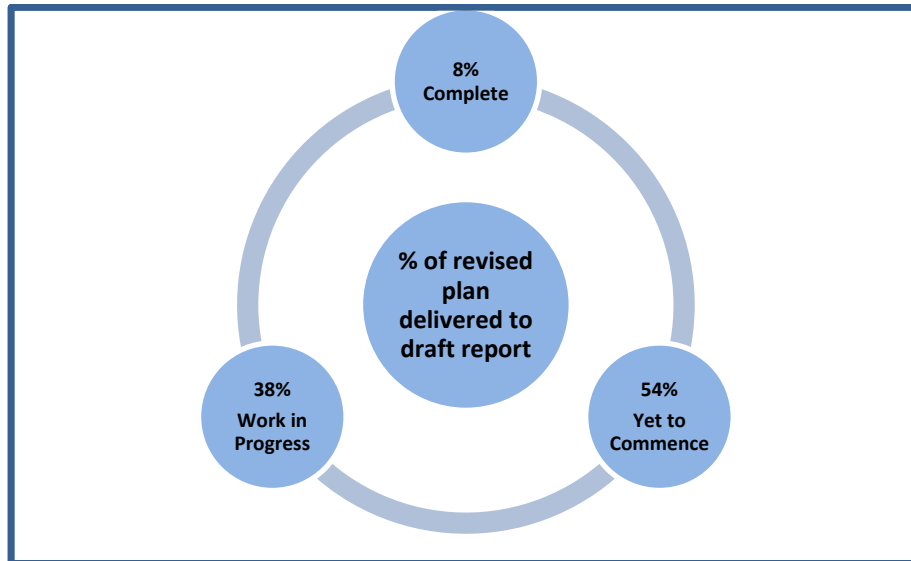
- The status of ‘live’ internal audit reports;
- an update on progress against the annual audit plan;
- a summary of internal audit performance, planning and resourcing issues; and
- a summary of significant issues that impact on the Chief Internal Auditor’s annual opinion.

Internal audit reviews culminate in an opinion on the assurance that can be placed on the effectiveness of the framework of risk management, control and governance designed to support the achievement of management objectives of the service area under review. The assurance opinions are categorised as follows:

<b>Substantial</b>	A sound system of governance, risk management and control exists, with internal controls operating effectively and being consistently applied to support the achievement of objectives in the area audited.
<b>Reasonable</b>	There is a generally sound system of governance, risk management and control in place. Some issues, non-compliance or scope for improvement were identified which may put at risk the achievement of objectives in the area audited.
<b>Limited</b>	Significant gaps, weaknesses or non-compliance were identified. Improvement is required to the system of governance, risk management and control to effectively manage risks to the achievement of objectives in the area audited.
<b>No</b>	Immediate action is required to address fundamental gaps, weaknesses or non-compliance identified. The system of governance, risk management and control is inadequate to effectively manage risks to the achievement of objectives in the area audited.

*\* Some reports listed within this progress report (pre 2020-21 audit plan) refer to categorisations used by SIAP prior to adoption of the CIPFA standard definitions, reference is provided at Annex 2.*

### 3. Performance dashboard



#### Compliance with Public Sector Internal Audit Standards

An External Quality Assessment of the Southern Internal Audit Partnership was undertaken by the Institute of Internal Auditors (IIA) in September 2020. The report concluded:

*'The mandatory elements of the International Professional Practices Framework (IPPF) include the Definition of Internal Auditing, Code of Ethics, Core Principles and International Standards. There are 64 fundamental principles to achieve with 118 points of recommended practice. We assess against the principles.*

*It is our view that the Southern Internal Audit Partnership conforms to all 64 of these principles.*

*We have also reviewed SIAP conformance with the Public Sector Internal Audit Standards (PSIAS) and Local Government Application Note (LGAN).*

*We are pleased to report that SIAP conform with all relevant, associated elements.'*

## 4. Analysis of 'Live' audit reviews

Audit Review	Report Date	Audit Sponsor	Assurance Opinion	Total Management Action(s)	Not Yet Due	Complete	Overdue		
							L	M	H
Food Safety	Nov 19	EHoP	Limited **	10	0	9	1		
Animal Welfare (Licensing)	May 20	EHoP	Limited **	14	0	13		1	
Licensing	Jun 20	EHoP	Adequate **	6	0	4			2
Information Governance	Jun 20	EHoS	Limited **	8	0	7		1	
Norse South East - Governance	Apr 21	EHoC	Reasonable	5	0	3		2	
Lease Income	Jun 21	EHoC	Reasonable	3	1	0			2
Building Control	Jun 21	EHoP	Limited	9	0	6			3
Business Rates	Nov 21	HoCS	Reasonable	3	0	0	2	1	
Tree Management	Dec 21	EHoP	Reasonable	5	0	3	2		
Planning Enforcement	Jan 22	EHoP	Reasonable	4	0	3		1	
Disabled Facilities Grants	Feb 22	EHoP	Reasonable	14	0	8	1	5	
Main Accounting 20/21	Mar 22	CFO	Reasonable	3	3	0			
Risk Management	Mar 22	EHoS	Limited	13	0	11	1	1	
Hampshire Home Choice- Housing Register (Homelessness)	Apr 22	EHoRC	Reasonable	3	0	1		2	
Procurement Arrangements	Apr 22	EHoC	Limited	11	6	1	1	3	
Income Collection and Banking	Jun 22	CFO	Reasonable	2	2	0			
Accounts Payable	Jun 22	CFO	Reasonable	6	4	2			
Accounts Receivable & Debt Management	Jul 22	CFO	Limited	7	7	0			
Planning / Developers Contributions	Jul 22	EHoP	Reasonable	2	1	0			1
IT Device Management	Jul 22	EHoC	Reasonable	9	0	0	1	7	1
Cyber-Attack Response Pathway	Aug 22	EHoC	Reasonable	10	0	3		3	4



Contract Management	Aug 22	EHoC	Reasonable	3	3	0			
<b>Total</b>							9	27	13

\* Denotes audits where all actions have been completed since the last progress report

\*\* The reports listed (pre 2020-21 audit plan) refer to categorisations used by SIAP prior to the adoption of the CIPFA standard definitions, reference is provided at Annex 2.

**NB** Internal Audit are working with the relevant officers to review all outstanding actions to ensure they remain appropriate following the Council's decision to withdraw from the Joint Management / Shared Staff Arrangements with East Hampshire District Council. The outstanding actions are being assessed as to whether they are still appropriate (including responsible officer and intended timescales for implementation), whether alternative actions are required to address the identified risk or where action is no longer required (e.g. if relating harmonising processes across the two Councils).

Audit Sponsor	
Executive Head of Place	EHoP
Executive Head of Internal Services	EHoIS
Executive Head of Commercial	EHoC
Executive Head of Regeneration and Communities	EHoRC
Chief Finance Officer	CFO

## 5. Executive Summaries of reports published concluding a 'Limited' or 'No' assurance opinion

There have been no 'Limited' or 'No' assurance opinion reports issued as part of the 2022-23 audit work.

## 6. Planning & Resourcing

The internal audit plan for 2022-23 was approved by the Audit and Finance Committee on 27 April 2022. The plan included provisions for consultancy/advisory work to support the Council with transitioning from the Joint Management / Shared Staff Arrangements with East Hampshire District Council and to respond to corresponding emerging issues and risks. The audit requirements are regularly discussed with the senior management team, and once established, proposed plan changes reported to the Audit and Finance Committee for consideration and agreement (Annex 1).

Progress against the plan is detailed within section 7.

## 7. Rolling Work Programme

Audit Review	Sponsor	Scoping	Terms of Reference	Fieldwork	Draft Report	Final Report	Assurance Opinion	Comment
<b>Brought forward audits included within the 2021-22 Annual Internal Audit Report and Opinion</b>								
Asset Management (Tenanted Properties)	EHoC	✓	✓	✓	Jul 22		Limited	
Council Tax	EHoC	✓	✓	✓	Jun 22		Reasonable	
<b>2022-23</b>								
<b>Corporate / Governance Reviews</b>								
Transition Arrangements (including HR & ICT)	CFO							Provision of days as required
Risk Management Arrangements	EHoIS	✓	✓	✓				
Financial Stability	CFO	✓						
Asset Management (Tenanted Properties) – Follow-up	EHoC							Q4
Business Continuity / Disaster Recovery	EHoIS							Q3/4
Corporate Governance – AGS *	EHoIS	✓	✓					
Information Governance – Theme TBC *	EHoIS	✓						
Contract Management Arrangements *	EHoC	✓	✓	✓	Jul 22	Aug 22	Reasonable	

<b>Audit Review</b>	<b>Sponsor</b>	<b>Scoping</b>	<b>Terms of Reference</b>	<b>Fieldwork</b>	<b>Draft Report</b>	<b>Final Report</b>	<b>Assurance Opinion</b>	<b>Comment</b>
Fraud Framework - National Fraud Initiative (NFI)	CFO	n/a	n/a	✓				On-going
<b>Financial Management</b>								
Accounts Payable	CFO							Q3
Accounts Receivable / Debt Management	CFO							Q3-4
Treasury Management	CFO							Q3-4
Benefits (including Council Tax Support Scheme)	EHoC							Q3-4
<b>Information Technology</b>								
ICT - Data Decoupling	EHoC							Q4
<b>Service / Other Reviews</b>								
TBC								Provision of days as required

Proposed plan changes \* - see Annex 1

**Annex 1 - Adjustments to the plan**

<b>Audit reviews added to the plan (included in rolling work programme above)</b>	<b>Comment</b>
Contract Management Arrangements *	Brought forward from 2021-22 plan as work in progress at the time of the Annual Internal Audit Report and Opinion.
Corporate Governance – AGS *	A review of the arrangements to inform the Annual Governance Statement.
Information Governance – Theme TBC *	Initial discussions have identified a potential aspect of information governance for review with a further meeting booked in October to establish the scope of the review.

<b>Audit reviews removed from the plan (excluded from rolling work programme)</b>	<b>Comment</b>
Norse South-East Partnership *	Defer the review due to on-going discussions to end the Inter Authority Agreement to provide services to East Hampshire District Council. Review once new arrangements have been established and become embedded.

Proposed October 2022 \*

## Annex 2 - Assurance opinions and definitions used by SIAP prior to adoption of the CIPFA standard definitions

As from April 2020 CIPFA guidance recommends a standard set of assurance opinions and supporting definitions for internal audit service providers across the public sector.

To ensure SIAP continue to conform to the best practice principles, the standard definitions were adopted for our 2020-21 work and moving forwards.

There remain some residual reviews detailed within Section 4 of this report that refer to SIAPs former assurance ratings which are detail below.

<b>Substantial</b>	A sound framework of internal control is in place and operating effectively. No risks to the achievement of system objectives have been identified
<b>Adequate</b>	Basically a sound framework of internal control with opportunities to improve controls and / or compliance with the control framework. No significant risks to the achievement of system objectives have been identified
<b>Limited</b>	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
<b>No</b>	Fundamental weaknesses identified in the framework of internal control or the framework is ineffective or absent with significant risk to the achievement of system objectives.

This page is intentionally left blank

**NON EXEMPT**

## **HAVANT BOROUGH COUNCIL**

---

**Audit and Finance Committee**

**FOR DECISION**

### **STATEMENT OF ACCOUNTS 2021/22 - HAVANT BOROUGH COUNCIL**

**Chief Finance Officer**

**Key Decision: No**

**Report number: HBC/085/2022**

---

#### **1.0 Purpose of Report**

- 1.1. To present the draft Statement of Accounts 2021/22 for approval.
- 1.2. To note the outturn position of the council's general fund of £0.154m
- 1.3. To approve the transfers from reserves.

#### **2.0 Recommendation**

- 2.1. That the Committee approve the draft 2021/22 Statement of Accounts for publication.
- 2.2. That the Committee note that the asset valuations are not yet complete and the draft Statement of Accounts will be updated as soon as they are available.

#### **3.0 Executive Summary**

- 3.1. This report details the main issues affecting the Council's draft Statement of Accounts 2021/22 and provides a commentary on the core financial statements. At the time of writing this report, the Council's external auditors, Ernst and Young, were yet to commence work on the accounts for 2021/22 with their core work scheduled for January 2023. The draft accounts include the Annual Governance Statement as previously approved.



## 4.0 Statement of Accounts

4.1. Detailed below is a brief description of the core financial statements and the issues relating to them.

**Movement in Reserves Statement** – this shows the movement in the year on the different reserves held by the authority, analysed into “useable reserves” (i.e. those that can be applied to fund expenditure or reduce local taxation) and un-useable reserves such as the revaluation reserve for land and property. The surplus of £3.542m on the provision of services line shows the true economic cost of providing the authority’s services, and these are shown in greater detail in the Comprehensive Income and Expenditure Statement. The net change of £0.154m before transfers from Earmarked Reserves line shows the statutory General Fund Balance before any discretionary transfers from earmarked reserves is made by the Council.

**Comprehensive Income and Expenditure Statement** – this shows the Council’s actual financial performance for the year, measured in terms of the resources consumed and generated over the last 12 months. It does not show the “cash” position for the Council and is intended to reflect private sector accounting practice in presenting a profit and loss account. Figures within this statement are significantly different from those presented in budget monitoring reports both due to differences in layout and inclusion of various items which are discounted for council tax setting purposes.

**Balance Sheet** – this is fundamental to the understanding of the Council’s yearend financial position. It shows the balances and reserves at the Council’s disposal and its long-term indebtedness, the net current assets employed in its operations and summarised information on the fixed assets held.

The Pension Fund liability of £36.495m shown in the Balance Sheet is a long term financial assessment of a possible shortfall on the Fund, based on the current situation and performance. As such, no immediate action is required to manage the deficit.

**Cash Flow Statement** – this brings together in a single statement the inflows and outflows of cash arising from the Council’s transactions with third parties for revenue, investment and capital purposes. Under International Financial Reporting Standards, the statement only reflects those flows of funds directly related to the Council. Where the Council acts as an agent, as in the case of collecting the Council Tax on behalf of precepting authorities, these inflows and outflows of cash are excluded.

**Collection Fund Income and Expenditure Account** – this reflects a statutory requirement for a Council which collects local taxes to maintain a separate account in relation to Business Rates and Council Tax and their distribution.

## Earmarked Reserves

### General Fund Earmarked Reserves

	Balance 01/04/2021	Transfers In	Transfers Out	Balance 31/03/2022
	£'000	£'000	£'000	£'000
Insurance Reserve	(653)	0	0	(653)
Financial Management reserve	(3,867)	0	0	(3,867)
Service Support Reserve	(1,304)	0	1,135	(169)
General Fund - earmarked	(22)	0	0	(22)
Capital Reserve	0	0	0	0
Restructuring reserve	(418)	0	0	(418)
Regeneration Reserve	(991)	0	0	(991)
Pensions Resilience Reserve	(789)	0	0	(789)
s31 Earmarked Reserves	(8,623)	0	5,237	(3,386)
Covid Stability Reserve	(2,180)	0	0	(2,180)
Leisure Contingency Reserve	(950)	0	0	(950)
<b>Total Earmarked Reserves</b>	<b>(19,797)</b>	<b>0</b>	<b>6,372</b>	<b>(13,425)</b>
<b>General Fund Balance</b>	<b>(3,509)</b>	<b>0</b>	<b>154</b>	<b>(3,355)</b>

## 5.0 Background

5.1. The Accounts and Audit Regulations 2015 require the Chief Finance Officer to sign the draft accounts by 31st July 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. There has been a delay in the preparation of the 2021/22 accounts due to only having approved the 2020/21 statement of accounts in August 2022.

## 6.0 Resource Implications

6.1. Financial Implications - None

6.2. Human Resources Implications - None

## 7.0 Legal Implications

7.1. The Statutory Accounts have to be noted and agreed for the Council to meet its statutory obligations to publish accounts.

## 8.0 Communication

8.1. The Statutory Accounts will be made public on the Council's website.

## 9.0 Appendices:

Appendix A: Draft Statement of Accounts 2021/22

Agreed and signed off by:

Monitoring Officer: 11/10/2022

S151 Officer: 11/10/2022

Portfolio Holder: [date)

**Contact Officer:** Malcolm Coe  
**Job Title:** Chief Finance (Section Officer 151)  
**Telephone:** 07905 164040  
**E-Mail:** Malcolm.coe@havant.gov.uk

**Havant Borough Council**

**DRAFT FINANCIAL REPORT AND  
STATEMENT OF  
ACCOUNTS**

**2021/22**

# CONTENTS

	Page
<b>Narrative Report</b>	2
<b>Independent Auditor's Report</b>	19
<b>Annual Governance Statement</b>	20
<b>Statement of Responsibilities</b>	36
<b>Statement of Accounts:</b>	
Main Accounting Statements:	
Comprehensive Income and Expenditure Statement	37
Movement in Reserve Statement	38
Balance Sheet	40
Cash Flow Statement	41
Notes to the Financial Statements:	
1 Accounting policies	42
2 Accounting standards issued but not yet adopted	55
3 Critical Judgements in applying accounting policies	56
4 Assumptions made about the future and other major sources of estimation uncertainty	57
5 Expenditure and Funding Analysis	58
6 Adjustments between accounting basis and funding basis under regulations	62
7 Expenditure and Income analysed by nature	64
8 Defined benefit pension Scheme	65
9 Income from grants and contributions	68
10 Material items of income and expenditure	68
11 Earmarked Reserves	69
12 Unusable Reserves	70
13 Capital expenditure and financing	73
14 Property plant and equipment	74
15 Investment properties	77
16 Debtors	78
17 Creditors	79
18 Provisions and contingent liabilities	79
19. Capital grants receipts in advance	80
20 Financial Instruments	81
21 Agency services	84
22 Leases	85
23 Members' allowances	86
24 Officers' remuneration and exit packages	87
25 External audit costs	89
26 Related parties	89
27 Interest in other entities	90
Collection Fund Statement and Notes:	93
Glossary	95

# INDEPENDENT AUDITOR'S REPORT

## Introduction

The Statement of Accounts for Havant Borough Council for the year ended 31 March 2022 has been prepared and published in accordance with the Accounts and Audit Regulations 2015 and the Code of Practice on Local Authority Accounting in the United Kingdom 2021/22 ("the Code") issued by the Chartered Institute of Public Finance and Accountancy. The Code is based on International Financial Reporting Standards, as adapted for the UK public sector under the oversight of the Financial Reporting Advisory Body.

The information contained in these accounts can be technical and complex to follow. The aim of this report, therefore, is to provide a narrative context to the accounts by presenting a clear and simple summary of the Council's financial position and performance for the year and its prospects for future years. This will give electors, local Havant residents, Council Members, partners, other stakeholders and interested parties confidence that public money which has been received and spent, has been properly accounted for and that the financial standing of the Council is secure.

The Accounts and Audit Regulations 2015 came into force on 1 April 2015, setting out the detailed requirements in relation to the duties and rights specified in the Local Audit and Accountability Act 2014. These regulations introduce earlier deadlines for publication of the accounts. The deadline for completion of the accounts for 2021/22 is 31<sup>st</sup> July for the unaudited statement of accounts and 30 November for the audited statement of accounts which have to be approved by the Audit Committee. This is a revised deadline for 2021/22 due to global pandemic and subsequent pressures put on Local Authorities. The Council is required to publish unaudited accounts by the 31<sup>st</sup> July. However, delays in approving the 2020/21 accounts has resulted in some slippage to this timeframe with the draft 2021/22 accounts being placed on the Council's website in mid October 2022.

As the financial statements demonstrate, the financial standing of the Council is sound. The Council has well established good financial management disciplines and processes and operate in an environment of continuous improvement.

This narrative report is structured as follows:

1. An Introduction to Havant
2. Covid 19
3. Summary of Achievements
4. Governance
5. Summary of the 2021/22 Financial Performance of the Council
6. Strategic Risks
7. Liability for Pensions Costs
8. Future Plans
9. Material assets/liabilities
10. Explanation of the Financial Statements
11. Acknowledgements

## 1. An Introduction to Havant Borough

The Borough of Havant is nestled between the South Downs and the Solent, covering approximately 55km<sup>2</sup> of southeastern Hampshire. There are roughly 125,000 people living in the semi-urban borough, which benefits from 60km of coastline and more than 5 times the UK average of green urban space. The borough has a strong history of industry, is home to more than 4,000 businesses, and has excellent road and rail connections to London, Southampton, Portsmouth and Brighton. However there are pockets of deprivation within the borough which score poorly for educational attainment, health and wellbeing.

Havant Borough Council is comprised of 38 councillors (elected by thirds) and operates according to the leader and cabinet model. In 2021-22 the Council has been controlled by a Conservative majority, with two Labour councillors, two UKIP councillors and one Liberal Democrat councillor.

The councillors are supported by 230 full time equivalent members of staff, who co-ordinate the provision of more than 70 services from the Public Service Plaza in the centre of Havant. The Council's Constitution sets out the

# INDEPENDENT AUDITOR'S REPORT

committee structure, scheme of delegation and other important regulatory matters, and has been thoroughly reviewed throughout 2021-22 to ensure that it remains an effective, streamlined document.

The Council's income comes from a variety of sources. Against a backdrop of decreasing funding from central government, the Council has worked hard to continue delivering efficient and effective services to residents and businesses. It is committed to careful and sustainable management of its resources in an upcoming time of change and will prioritise the needs of local people and businesses as it undergoes transformation.

The business case for sharing senior managers across both East Hampshire District Council and Havant Borough Council was agreed by the Council on 30 June 2010. In January 2022 Havant Borough Council and East Hants District Council considered that a partnership was no longer the best option for a sustainable and successful future and made a business case for ending the partnership. On 16 March 2022 Havant Council approved the preferred option and business case for managing the transition and withdrawal from the joint management and shared staffing arrangements at both authorities and move towards a standalone Council. An Interim Chief Executive was appointed as the Chief Executive for Havant.



# INDEPENDENT AUDITOR'S REPORT

## 2. Covid 19 PANDEMIC

### *Background*

The Council has continued to support residents and businesses as the country emerges from the global pandemic. During the first part of the year an additional 700 local businesses benefited from Covid related support grants as the country emerged from lockdowns. In May 2021 the local elections were successfully held with the additional safety measures that were required as a result of Covid. Our staff continue to work in a hybrid way, embracing both working from home and office working. Whilst all Covid restrictions have now been lifted the Council is looking to ensure that residents and businesses have the necessary support going forward and this will primarily be driven through our new Corporate Strategy.

### *Business Support*

During the year the Council has continued to be instrumental in ensuring that local businesses are supported through the processing and distribution of grants. The pandemic has had and will continue to have a significant impact on businesses and the economy with the nature and scale of the event being unprecedented. Government released a package of support including a range of initiatives including grants and extended business rates reliefs. On 3 March 2021 the government confirmed that the Expanded Retail Discount would continue to apply in 2021/22 at 100% for three months, from 1 April 2021 to 30 June 2021, and at 66% for the remaining period, from 1 July 2021 to 31 March 2022. The government confirmed that there would be no cash cap on the relief received for the period from 1 April 2021 to 30 June 2021. From 1 July 2021, relief will be capped at £105,000 per business, or £2 million per business where the business is in occupation of a property that was required, or would have been required, to close, based on the law and guidance applicable on 5 January 2021.

In total the Council administered further grant schemes as detailed below and gave out over £6.5 million to local businesses during 2021-22 across the business grant schemes.

- Additional Restrictions Business Grant Scheme
- Restart Grant Scheme
- Omicron Business Grant Scheme

### *Financial Impact*

The Council has had considerable financial pressure as a result of the pandemic which has been partially mitigated through receipt of financial grants from Central Government including:

- Covid (unringfenced) grant: £0.743 million
- Sales, Fees and Charges compensation scheme: £0.184 million

The Council has continued to run services throughout the pandemic including, for example, regulatory services such as Planning and Building Control and this has helped to mitigate the financial impact of the pandemic. Moving forward, the Council has reset its Medium-Term Financial Strategy (MTFS) in recognition of the impact of the pandemic and the Council's strategic objectives and set a balanced budget for 2022-23. The changing environment and "new normal" will require the Council to review the services it provides, its delivery models and the outcomes that are of the highest priority. This will also require the Council to review the structural position of its budget and how that needs to change going forward as a stand-alone council.

### *Service Impact*

# INDEPENDENT AUDITOR'S REPORT

Corporately, the majority of staff have been home based for the financial year with only a small selection of staff who cannot be home based working in the Council offices in a covid secure environment. Increased communications with staff through virtual meetings have been held as well as wellbeing support available for staff to be able to access.

Service delivery has continued throughout the pandemic with all our statutory services continuing to operate. Service changes within Environmental Services were initiated during the lockdowns to ensure that essential elements of waste collection continued.

## *Summary*

The coronavirus pandemic has had a profound impact on all aspects of life in Havant. Through 2021/22 the Council has adopted a pro-active evidence-led approach to ensure that it responds to the emerging needs of residents and businesses. Going forward the Council will move into a recovery phase and will seek to continue to provide support to residents, businesses, and officers to ensure that the area recovers as soon as possible from this once in a generation global event.

## **3. Summary of Achievements**

### ***The Corporate Strategy***

Havant Borough Council sets out its strategic aims and objectives in its Corporate Strategy, which articulates its mission 'enhance the lives of our residents, businesses and visitors'. During the year a new Corporate Strategy was developed and approved by Full Council. The new Corporate Strategy has a focus on the following themes:

- An environmentally aware and cleaner borough
- A safe environment, healthier and more active residents
- A thriving local economy
- A revitalised borough with infrastructure that meets our ambitions
- A responsive and commercial council
- A quality home for all

The Corporate Strategy is supported by a number of other plans including our Regeneration & Economy Strategy, our Digital Strategy, our Homelessness and Rough Sleeper Strategy, our developing Local Plan and our Climate Change and Environmental Strategy.

Despite the challenges posed by Covid during the first part of the year the Council has still delivered some notable achievements through the year as summarised below:.

During 2021/22:

- We agreed to move towards being a standalone Council, separating out our shared staffing arrangements with East Hampshire District Council, in order to ensure sole focus on delivery for Havant Borough;
- We approved our new Climate Change and Environmental Strategy setting out how we will reach our aspiration of carbon net-zero for council operations by 2050;
- Our pioneering nitrate mitigation scheme was recognised at the national CIEEM awards;
- We continued to invest in play areas across the borough including the Emsworth Recreation Ground and Jubilee Park play area in Waterloo;.
- We awarded nearly £500,000 to fund a scheme to help young people in Leigh Park into work and to improve their long term health and wellbeing;
- Planning permission was granted for the Havant Thicket reservoir, safeguarding the water supply in the borough for decades to come;
- The Beachlands area of Hayling Island retained its prestigious Blue Flag Award

# INDEPENDENT AUDITOR'S REPORT

## **Key Business Indicators**

The table below contains some of our key corporate performance indicators in 2021-22, with comparison figures from 2020-21. In addition, we have sought to improve our performance reporting by adding further key performance measures which we now monitor during the year.

<b>Key Performance Indicator</b>	<b>2020-21</b>	<b>2021-22</b>
Business Rates collection rate	87.05%	89.94%
Council Tax collection rate	94.41%	94.59%
Major planning applications decided within 13 weeks or agreed extension (over 70%)	98%	88%
Minor planning applications decided within 13 weeks or agreed extension (over 65%)	82%	85%
All planning applications decided within 26 weeks (above 98%)	99%	99%
Full Building Control plan applications checked within 15 days (over 90%)	New system	88%
Customer Service calls answered within 20 seconds (above 75%)	68%	82%
Homelessness interventions (above 600 for the year)	960	825
Affordable homes delivered.	58	73
Freedom of Information requests responded within statutory deadline (above 95%)	97%	95%

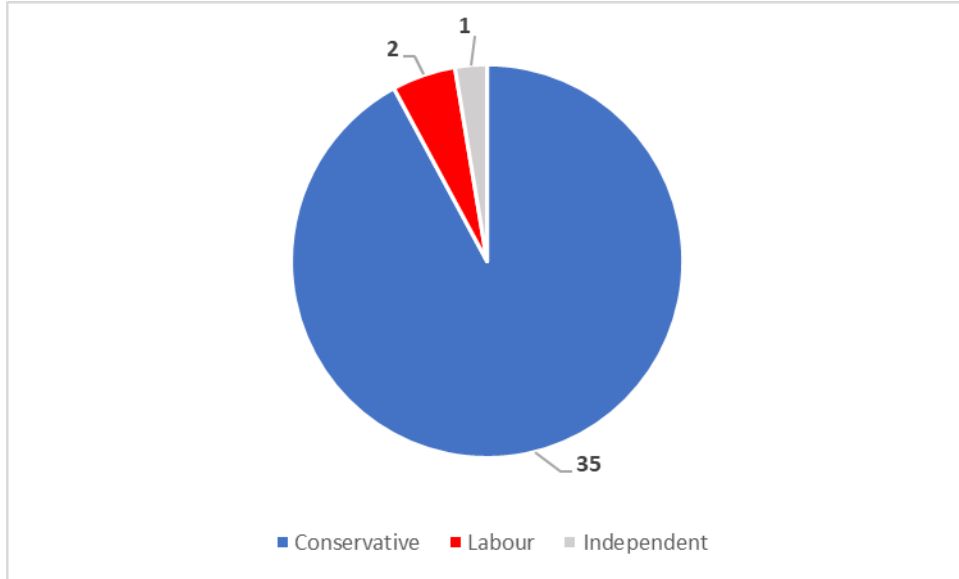
## **4. Governance**

Governance refers to the arrangements put in place to ensure that our intended outcomes are defined and achieved. For example, the Corporate Governance Board meets on a quarterly basis to discuss internal audit, risk management, health and safety, emergency planning, information governance, and any complaints received from the Local Government Ombudsman.

### ***The Council***

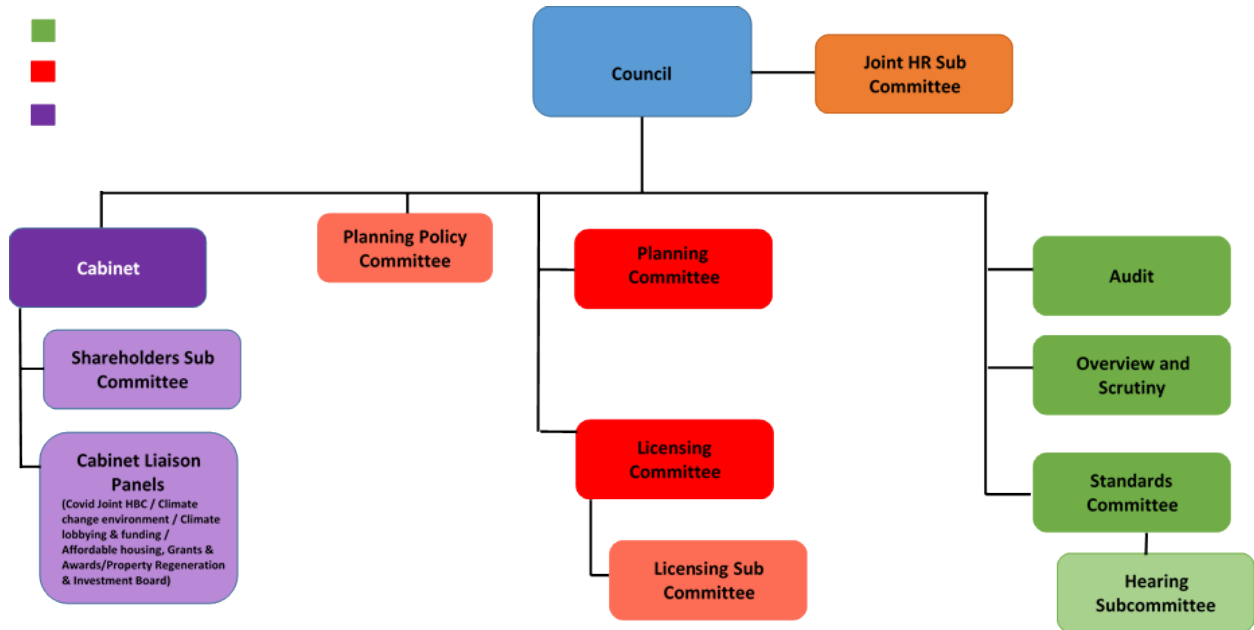
Havant Borough is made up of 38 councillors elected in thirds, with each Councillor serving a four-year term. Councillors are democratically accountable to the residents of their ward.

# INDEPENDENT AUDITOR'S REPORT



The political make up of the members is shown in the table above.

All the Councillors meet together as Full Council six times a year, in a public forum, to set the policy and budget framework within which the Council operates. Set out below is a diagram of the Decision-Making bodies for Havant Borough Council that were in place during 2021/22.



## Cabinet

Havant Borough runs on a 'Leader and Cabinet' model. This works in the same way as the Prime Minister and Cabinet but on a local scale. The political party which has had the most councillors elected by the public forms the cabinet, and elects one of its members as the Leader (currently Councillor Alex Rennie).

# INDEPENDENT AUDITOR'S REPORT

The Cabinet makes collected policy decisions for the council. The Cabinet will be advised and supported in its policy formulation role by Scrutiny and Policy Development Panels, with particular areas of responsibility and encompassing a broad range of opinion and expertise. In addition it is also advised by a number of committees.

The Cabinet has to make decisions which are in line with the council's overall policies and budget. If it wishes to make a decision which is outside the budget or policy framework, this must be referred to the Council as a whole to decide.

Each Cabinet Member is responsible for an area of the council's work, known as portfolios.

## ***Overview & Scrutiny Committee***

The Committee is made up of 14 Councillors.

The Committee has the remit to;

- Review and scrutinise the decisions made and performance of the Executive and/or council officers both in relation to individual decisions and the impact of those decisions over time
- Review and scrutinise the performance of the Council in relation to its policy objectives, performance targets and/or particular service areas

## ***Audit Committee***

The Committee is made up of 8 Councillors.

The Committee had the remit to.

- provide independent assurance of the adequacy of the risk management framework and the associated control environment;
- to provide independent scrutiny of the authority's financial and non-financial performance to the extent that it affects the authority's exposure to risk and weakens the control environment, and to oversee the financial reporting process.

## ***Planning Committee***

The Committee is made up of 7 Councillors and normally meets monthly.

The majority of planning applications are dealt with by council officers under delegated powers from the Planning Committee as they are relatively straight forward. Approximately 20% are referred to councillors to make a decision.

The Planning Committee's function is:

- to deal with applications for planning permission and the conduct of planning appeals. It considers the larger more controversial applications.
- Changes of use, for example a building changing from a newsagent to a fish and chip shop, are also deemed to be developments requiring planning consent.

The committee also has an enforcement role in ensuring that planning conditions are complied with and that unacceptable development which has taken place without the necessary planning permission is removed or ceased, and is responsible for the protection and preservation of trees.

## ***Licensing Committee***

The Committee is made up of 15 Councillors and meets as required. The Licensing Committee is responsible for licensing and registration functions.

# INDEPENDENT AUDITOR'S REPORT

The full list of matters includes:

- hackney carriage and private hire taxis (and drivers);
- theatre licences; game dealers;
- entertainment licences; and
- lotteries.

## **Standards Committee**

The Committee is made up of 8 Councillors.

The Standards functions are:

- to promote and maintain high standards of conduct by Members and Co-opted Members of the Council;
- to adopt a Code of Conduct dealing with the conduct expected of Members and Co-opted Members of the Council when acting in that capacity;
- to put in place arrangements to investigate and make decisions on written allegations against Elected Members both at District and Parish level and undertake an overview of complaints handling and Local Government Ombudsman investigations, including the power to make payments or other benefits in cases of maladministration etc.

## **Planning Policy Committee**

The Committee is made up of 10 Councillors.

The Planning Policy Committee functions are:

- to agree the emerging content of the Havant Borough Council Local plan throughout its preparation

## **Joint HR Committee**

The Committee is made up of 5 Councillors from EHDC and 5 Councillors from HBC.

In addition to the above there are various sub-committees including Constitution, Shareholders and Licensing sub-committee which met as required during the year.

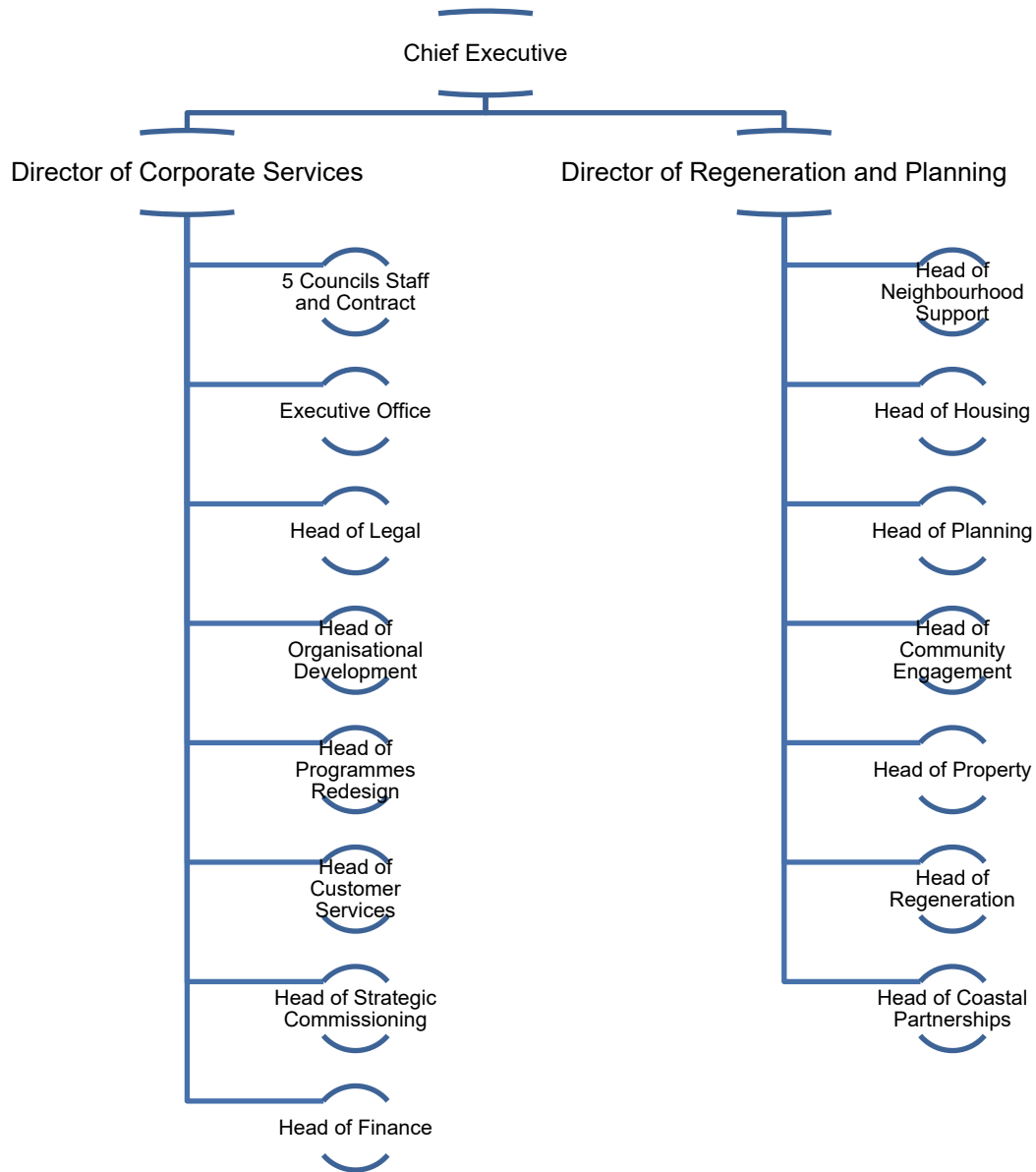
All meeting information (papers and minutes) of all Committee meetings are located on our website:

<https://havant.moderngov.co.uk/mgListCommittees.aspx>

## **Management Structure**

Supporting the work of elected Members is the organisational structure of the Council headed by the Executive Team. The Council appoints a Monitoring Officer and Chief Finance Officer, as required by law. These officers have responsibility to take action if the Council has, or is about to, break the law or if the Council is about to set an unbalanced budget. Areas of responsibility are shown below, it should be noted that as a result of the decision to split the management structure the below structure was accurate as at 31 March 2022, although it will be subject to change during 2022-23.

# INDEPENDENT AUDITOR'S REPORT



## Staffing

A summary of the Council's staffing is shown in the table below:

<b>Employees</b>	<b>2020/21</b>	<b>2021/22</b>
Total number of current permanent full and part time employees	300	257
Total number of current temporary / fixed term employees		
<b>Total number of employees</b>	<b>300</b>	<b>257</b>
Total number of employees expressed as full time equivalents	253	230

<b>Posts</b>	<b>2020/21</b>	<b>2021/22</b>
Total number of permanent full and part time posts	280	279
Total number of temporary / fixed term posts		

# INDEPENDENT AUDITOR'S REPORT

<b>Total number of posts</b>	<b>280</b>	<b>279</b>
Total number of posts expressed as full time equivalents	253	252

Sickness and accident statistics are shown in the table below:

	<b>2020/21</b>	<b>2021/22</b>
Short term sickness (days per FTE)	1.4	1.3
Long term sickness (days per FTE)	5.3	4.1
Overall sickness (days per FTE)	6.7	5.4



# INDEPENDENT AUDITOR'S REPORT

## 5. A Summary of the 2021/22 Financial Performance of the Council

### General Fund

A summary of the General Fund position is shown below in the format used for management accounting and reported to Members throughout the year.

	Final Budget	Outturn	Variation *	Variation
	£'000	£'000	£'000	%
<b>Director of Corporate Services</b>				
5 Councils Staff and Contract	287	(14)	(301)	-104.9%
Executive Office	469	713	244	52.0%
Head of Legal	913	988	75	8.2%
Head of Organisational Development	724	600	(124)	-17.1%
Head of Programmes Redesign	3,039	3,036	(3)	-0.1%
Head of Customer Services	3,231	4,017	786	24.3%
Head of Strategic Commissioning	3,764	3,582	(182)	-4.8%
Head of Finance	1,131	1,329	198	17.5%
			0	
			0	
<b>Director of Regeneration and Planning</b>			0	
Head of Coastal Partnerships	417	314	(103)	-24.7%
Head of Neighbourhood Support	(495)	(104)	391	-79.0%
Head of Housing	454	1,327	873	192.3%
Head of Planning	603	600	(3)	-0.5%
Head of Community Engagement	584	463	(121)	-20.7%
Head of Property	(1,849)	(889)	960	-51.9%
Head of Regeneration (South)	519	407	(112)	-21.6%
Other operating income and expenditure	0	21	21	
<b>Total Cost of Services</b>	<b>13,791</b>	<b>16,390</b>	<b>2,599</b>	<b>18.8%</b>
Capital expenditure charged to revenue	0	99	99	
Meridian	(198)	(8)	190	-96.0%
<b>Net Cost of Services</b>	<b>13,593</b>	<b>16,481</b>	<b>2,888</b>	<b>21.2%</b>
<b>Funded by:</b>				
Business Rates Retention	(4,496)	(4,342)	154	-3.4%
Section 31 grant	(1,953)	(3,766)	(1,813)	92.8%
Levy payment	996	629	(367)	-36.8%
Business Rates Collection Fund (surplus)/Deficit	1,416	9,003	7,587	535.8%
Council Tax Demand on the Collection Fund (inc precepts)	(8,890)	(8,890)	0	0.0%
Collection Fund (Surplus)/Deficit	(113)	(115)	(2)	1.8%
New Homes Bonus Grant	(347)	(347)	0	0.0%
General Grants	(943)	(2,123)	(1,180)	125.1%
Contributions to/(from) Earmarked Reserves	737	(1,139)	(1,876)	-254.5%
Contributions to/(from) S31 Earmarked Reserves		(5,237)	(5,237)	
Contributions to/(from) General Fund Balance		(154)	(154)	
<b>Total Funding</b>	<b>(13,593)</b>	<b>(16,481)</b>	<b>(2,888)</b>	<b>21.2%</b>
<b>Net (Surplus) / Deficit</b>	<b>0</b>	<b>0</b>	<b>0</b>	

# INDEPENDENT AUDITOR'S REPORT

The General Fund Revenue Budget outturn is a deficit £0.154m . The main variances are detailed in the sections that follow:-

Service Area	Variance to budget (£000)	Reasons
5 Councils Contract & Staff	(301)	Accrual for provision for contract costs from prior years and savings on salaries and professional fees
Executive Office	244	Extra spend on transformation in year. We will explore the use of the HBC Transformation Reserve throughout 2022/23
Organisational Development	(124)	£73k underspend in communications on staffing costs and £51k underspend on salary costs in HR
Customer Services	786	£700K accrual for the HB benefit owed to DWP which should have been charged in 2020/21
Strategic Commissioning	(182)	Savings across the service in staffing costs
Finance	198	Overspend on external audit fees along with savings targets that were not able to be delivered
Neighbourhood Support	391	£150k savings target within Parking service not achieved as a result of downturn in income. In particular, quarter one was still affected by Covid downturn.
Head of Housing	873	Large number of homelessness presenting and in temporary accommodation where recoveries of monies via Housing benefit are around 40% leaving the cost falling to the general fund.
Community Engagement	(121)	Savings on Health & Wellbeing and Community Development
Property	960	Including an ambitious savings target of £495k set in the budget which was not fully delivered in year.
Regeneration (South)	(112)	Vacancy savings within the team
Coastal Partnership	(103)	Additional income achieved within the Transport team as well as additional savings in expenditure.

# INDEPENDENT AUDITOR'S REPORT

## General Fund: Capital Programme

The General Fund Capital Programme is summarised in the table below:

<b>Havant Borough Council</b>				
Capital Programme Summary				
	2021/22 Revised Budget Feb 22 £ (000)	2021/22 Provisional Outturn £ (000)		2021/22 Variance £ (000)
<b>Housing</b>				
Disabled Facilities Grants	1,628	838		(790)
<b>Operational Land and Buildings</b>				
Developer contributions	1,044	190		(854)
Neutrient Neutrality Mitigation	47	42		(5)
CILfundedHBCownedassets	0	87		87
CILFunded-NonHBCAssets	0	100		100
HaylingIslandBMA	428	342		(86)
HaylingIsland Strategy	215	186		(29)
LangstoneFCERM	658	615		(43)
Broadmarsh Feasibility Study	0	18		18
AcornCentreExtension	0	88		88
Community Leisure Projects	178	185		7
FeasibilityStudyreMUGAHook	0	8		8
Leigh park Community centre refurbishment	0	5		5
<b>Vehicles and Equipment</b>				
Refurbishment of HBC Play Areas	250	243		(7)
<b>IT Equipment</b>				0
Design and Implementation Programme	204			(204)
<b>Total Capital Programme</b>	<b>4,652</b>	<b>2,947</b>	<b>-</b>	<b>1,705</b>
	2021/22 Revised Budget Feb 22 £ (000)	2021/22 Provisional Outturn £ (000)		2021/22 Variance £ (000)
<b>Funded By:</b>				
REFCUS (Revenue funded as Capital under Statute)	1,628	1,178		(450)
External Grants & Contributions	2,750	1,669		(1,081)
Use of Specific Reserves	274	100		(174)
Use of Capital Receipts	0	0		0
Borrowing Requirement	0	0		0
<b>Total Funding</b>	<b>4,652</b>	<b>2,947</b>		<b>(1,705)</b>

The outturn on the General Fund Capital Programme is an overall underspend of £1.705 million. The largest variance is in relation to Disabled Facilities Grants, (DFG), where spend early in the financial year was significantly impacted by Covid pandemic. Funding for DFGs is ring-fenced and, as such, any unspent sums will be carried forward into the following financial year to meet with the future demands on the service.

Similarly, we have not spent the full £1.04m capital allocation linked to 'Developer Contributions' in year, with unspent funding being rolled forward into 2022/23. However, capital spend of £243k has been utilised from the £250k budget for enhancing the Council's play areas.

# INDEPENDENT AUDITOR'S REPORT

## **Strategic Risks**

The Council maintains a risk register which details the major corporate risks facing its functionality and the delivery of its corporate objectives. Services maintain their own risk registers and can escalate a risk to the corporate register if necessary.

## **6. Liability for Pensions Costs**

The estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discounts used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the Council with expert advice about the assumptions to be applied.

The Council's net Pension Liability valued on an IAS 19 basis decreased from £48.325 million at 31st March 2021 to £36.495million at 31st March 2022. It is detailed in Note 8 to the accounts. Gross liabilities have decreased by £7.398 million mainly due to changes in the financial assumptions, and the fair value of assets has increased by £4.432 million.

The Council does not operate its own Pension Fund but is part of the Hampshire Local Government Pension Scheme which is administered by Hampshire County Council. Full details of the Pension Scheme and its accounts are available on-line at [www.hampshire.gov.uk](http://www.hampshire.gov.uk)

## **7. Future Plans**

In common with the rest of local government, the Council has seen a steady reduction in its core funding in recent years. The Government's aim is to phase out non-specific grant funding altogether, instead allowing local authorities to retain a higher proportion of business rates collected locally.

The Medium Term Financial Strategy has recently been updated indicating that due to reductions in government funding and demands on Council services as well as more general economic changes, the financing of the Council services remains challenging.

To balance the budget there will be a continuing need for service transformation, efficiencies and other savings initiatives for the foreseeable future.

### ***The Medium Term Financial Strategy***

The budget for 2022/23 was set against further reductions in Government grant. The Council's Medium Term Financial Strategy has been updated and takes into account inflation (both pay and contract), superannuation and national insurance changes.

The medium term financial strategy for the period 2022/23 to 2026/27 is set out in the table below:-

# INDEPENDENT AUDITOR'S REPORT

Havant Borough Council 2022/23 to 2026/27 Medium Term Financial Strategy	2022/23 Estimate £ (000)	2023/24 Estimate £ (000)	2024/25 Estimate £ (000)	2025/26 Estimate £ (000)	2026/27 Estimate £ (000)
<b>Director of Corporate Services</b>					
5 Councils Staff and Contract	273	273	273	273	273
Executive Office	469	469	469	469	469
Head of Legal	946	836	836	836	836
Head of Organisational Development	694	694	694	694	694
Head of Programmes Redesign	2,882	2,882	2,882	2,882	2,882
Head of Customer Services	3,071	3,071	3,071	3,071	3,071
Head of Strategic Commissioning	4,119	4,332	4,550	4,772	4,772
Head of Finance	1,074	1,074	1,074	1,074	1,074
<b>Director of Regeneration and Planning</b>					
Head of Coastal Partnerships	393	393	393	393	393
Head of Neighbourhood Support	(681)	(681)	(681)	(681)	(681)
Head of Housing	204	204	204	204	204
Head of Planning	572	572	572	572	572
Head of Community Engagement	584	584	584	584	584
Head of Property	(1,849)	(1,849)	(1,849)	(1,849)	(1,849)
Head of Regeneration (South)	519	519	519	519	519
<b>Total Cost of Services</b>	<b>13,270</b>	<b>13,373</b>	<b>13,591</b>	<b>13,813</b>	<b>13,813</b>
<b>Savings to be identified</b>					
Regeneration Investments (Meridian - net)	0	0	0	0	0
Prior year savings	0	0	0	0	0
Salary inflation	511	905	1,311	1,729	2,161
Inflation and contract uplift costs (cumulative)	650	900	1,150	1,400	1,650
<b>Net Cost of Services</b>	<b>14,431</b>	<b>15,178</b>	<b>16,052</b>	<b>16,942</b>	<b>17,624</b>
<b>Business Rates Retention</b>	<b>(4,293)</b>	<b>(4,379)</b>	<b>(4,467)</b>	<b>(4,556)</b>	<b>(4,647)</b>
Section 31 grant	(1,992)	(2,032)	(2,073)	(2,114)	(2,156)
Levy payment	1,016	1,036	1,057	1,078	1,100
Business Rates Collection Fund (surplus)/Deficit	0	0	0	0	0
<b>Council Tax</b>	<b>(9,113)</b>	<b>(9,341)</b>	<b>(9,576)</b>	<b>(9,817)</b>	<b>(10,063)</b>
Council Tax Collection Fund (surplus)/Deficit	0	0	0	0	0
<b>General Grants</b>	<b>0</b>				
New Homes Bonus Grant	(474)	0	0	0	0
<b>Other Financing</b>	<b>0</b>				
<b>Covid 202122 allocation</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
Lower Tier Services Grant	(150)	0	0	0	0
New Service Grant	(231)	0	0	0	0
Contributions to/(from) Earmarked Reserves	806	806	806	806	806
Contributions to/(from) General Fund Balance					
<b>Total Deficit/(Surplus)</b>	<b>0</b>	<b>1,268</b>	<b>1,799</b>	<b>2,339</b>	<b>2,664</b>

# INDEPENDENT AUDITOR'S REPORT

## Capital Strategy 2022/23

The CIPFA revised 2017 Prudential and Treasury Management Codes require all local authorities to prepare a capital strategy report, which seeks to provide the following:

- a high-level long term overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services
- an overview of how associated risk is managed
- the implications for future financial sustainability

The Council's Capital Strategy for 2022/23 was approved by Full Council in February 2022 and is available on the Council's website. The Capital Programme for 2022/23 to 2026/27 was prepared to mirror the 5 year timeframe of the MTFS.

Havant Borough Council Capital Programme Summary Project	YTD	5 YEAR CAPITAL PROGRAMME				
	2021/22 Revised Forecast £'000	2022/23 £'000	2023/24 £'000	2024/25 £'000	2025/26 £'000	2026/27 £'000
<b>Housing</b>						
Disabled Facilities Grants	1,628	1,628	1,628	1,628	1,628	1,628
<b>IT Equipment</b>						
Design and System Implementation Programme	204					
Asset Maintenance Management System	0	60				
Building Control - Software	0					
Southern Coastal	0					
<b>Vehicles and Equipment</b>						
Pest Control Vehicles	0					
Refurbishment of HBC equipped play areas	250	140				
<b>Land and Buildings</b>						
Developer contributions / CIL	1044					
Hayling Island Goose Refuge						
Nutrient Neutrality Mitigation	47	250				
Community Leisure Projects	178					
Warblington Bridge	0	300	2475			
Hayling Island Skate Park	0	150				
Hayling Island BMA	428	500	425			
Hayling Island Strategy	215	292				
Langstone FCERM	658	337	2293	2,300		
<b>Grand Totals</b>	<b>4,652</b>	<b>3,657</b>	<b>6,821</b>	<b>3,928</b>	<b>1,628</b>	<b>1,628</b>
<b>Projected Capital Financing</b>						
REFCUS (Revenue funded as Capital under Statute)	1,628	1,628	1,628	1,628	1,628	1,628
External Grants & Contributions	2,750	1,899	5,193	2,300	0	0
Use of Specific Reserves	274	130				
Use of Capital Receipts						
Borrowing Requirement						
Revenue Funding						
<b>Total Projected Funding</b>	<b>4,652</b>	<b>3,657</b>	<b>6,821</b>	<b>3,928</b>	<b>1,628</b>	<b>1,628</b>

# INDEPENDENT AUDITOR'S REPORT

## 8. Material assets/liabilities

The Council did not purchase or dispose of any significant assets during the year.

## 9. Explanation of the Financial Statements

The Accounts and Audit Regulations 2015 require the Council to produce a Statement of Accounts for each financial year. There have been no changes to policies.

These statements contain a number of different elements which are explained below.

**Statement of Responsibilities** sets out the respective responsibilities of the Council and the Chief Finance Officer.

**Independent Auditor's Report** gives the auditor's opinion of the financial statements and of the Council's arrangements for securing economy, efficiency and effectiveness in the use of resources.

### Statement of Accounts

- **Comprehensive Income and Expenditure Statement** shows the cost of providing services in the year in accordance with International Financial Reporting Standards, rather than the amount to be funded from taxation.
- **Movement in Reserves Statement** shows the movement in the year on the different reserves held by the Council, analysed into usable reserves (i.e. those that can be applied to fund expenditure or reduce local taxation) and unusable reserves.
- **Balance Sheet** shows the value of the Council's assets and liabilities at the reporting date. These are matched by reserves which are split into two categories; usable and unusable reserves.
- **Cash Flow Statement** shows the changes in the Council's cash and cash equivalents during the reporting period.
- **Collection Fund** is an agent's statement that reflects the statutory obligation of billing authorities to maintain a separate Collection Fund. The statement shows the transactions of the billing authority in relation to the collection from taxpayers of Council Tax and National Non-Domestic Rates (NDR) and its distribution to precepting bodies.

## 10. Acknowledgements

I would like to thank all those involved in managing the Council's finances and preparing this Statement of Accounts. Their support under ever increasing competing demands has been appreciated throughout these challenging times.

**Malcolm Coe**  
**Chief Finance Officer**

# INDEPENDENT AUDITOR'S REPORT

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

Opinion – to follow

Kevin Suter (Key Audit Partner)  
Ernst & Young LLP (Local Auditor)  
Southampton  
xxxx



# ANNUAL GOVERNANCE STATEMENT

## **Introduction**

The Leader of the Council (Councillor Alex Rennie) and Interim Chief Executive (Kim Sawyer) 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 2021-22.

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 Management Team which comprises the Chief Executive, Executive Heads, Chief Finance Officer (Section 151 Officer) with advice and guidance provided by the Monitoring Officer. The Management Team is further supported and provided with assurance by the Corporate Governance Board.

## **Governance during Covid-19**

The year 2021-22 although not as impacted as the previous year has still been characterised by the challenges around delivering services while maintaining good governance during the Covid-19 pandemic. The Council has continued to operate through a remote and/or hybrid way of conducting business. Council meetings have moved back to in-person meetings, as required by law, however, meetings continue to be live-streamed over the internet and officers often attend remotely if not in person. The majority of our staff have been working remotely, with all statutory Council services continuing to be delivered throughout the year.

The requirements of responding to Covid have reduced over the year, although during the early part of 2021-22 business grants were still being provided, and the elections in May 2021 were run successfully, adhering to all Covid requirements.

Internal audit have provided assurance on our approach to Covid-19 business grants through an internal audit which gave a 'substantial' rating with three management actions, all of which have been completed.

## **Governance during the transition from shared management to a standalone Council**

In January 2022, after a 12 year partnership, Havant Borough Council and East Hampshire District Council announced that it was the right moment to establish their own management teams so they could focus on their different strategic priorities and deliver outcomes for their communities more quickly.

On 26 January 2022 at an extraordinary Full Council meeting it was formally agreed that Havant Borough Council would be withdrawing from its joint management agreement with East Hampshire District Council, subject to a

# ANNUAL GOVERNANCE STATEMENT

business case which would be brought forward at earliest opportunity. East Hampshire formally agreed to withdraw at its meeting on 20 January 2022.

During February business cases and an options appraisal was worked up for consideration by Cabinet and then Council. In addition, CIPFA were engaged to produce a financial review of both authorities. The CIPFA review formed part of the business case and options appraisal for withdrawal and confirmed from a financial perspective Havant Borough Council could operate as a standalone Council. During the process staff were kept updated on progress through regular staff briefings, Q&As being published and a special section on the staff intranet (Skoop+) which contained all the relevant information and reports for staff to review.

On 16 March 2022 Havant Council approved the preferred option and business case for managing the transition and withdrawal from the joint management and shared staffing arrangements at both authorities and move towards a standalone Council. East Hampshire approval followed on 17 March 2022. The Council meeting reviewed the business case, options appraisal and report from CIPFA in making its decision. During the initial decision making process, Kim Sawyer was confirmed as the Acting Chief Executive at Havant and Gill Kneller the Chief Executive at East Hampshire.

Following the formal decision in late March, work was put in place to progress the transition to ensure the ending of shared management arrangements and establishment of new management structure to be in place during the course of 2022/23. At this stage Kim Sawyer was confirmed as the Interim Chief Executive of Havant Borough Council. The next Annual Governance Statement for 2022/23 will provide further narrative on the governance process of the transition once it has been completed in full by December 2022. In addition, an area for improvement within this governance statement is the management of the transition and ensuring the right governance process is in place for ensuring a smooth transition covering people, systems and processes.

# ANNUAL GOVERNANCE STATEMENT

## 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.

### Procedures, rules and internal management processes

- Delivery of Corporate Strategy priorities
- Services are delivered economically, efficiently and effectively
- Management of risk
- Financial planning and performance
- Effective internal controls
- Community engagement and public accountability
- Shared service governance
- Project management and project delivery
- Procurement processes
- Roles and responsibilities of Members and Officers
- Standards of conduct and behaviour
- Training and development of Members and Officers
- Compliance with laws and regulations, internal policies and procedures

### Sources that provide assurance

- Constitution (including statutory officers, scheme of delegation, financial management and procurement rules)
- Council, Cabinet, Committees and Panels
- Corporate Governance Board
- Quarterly healthcheck reports
- Joint Human Resources Committee
- Management Team
- Project management methodology
- Strategic Projects Board
- Performance Management Framework
- Medium Term Financial Strategy
- Complaints system
- Head of Paid Service, Monitoring Officer and S151 Officer
- HR policies and procedures
- Whistleblowing and other policies countering fraud
- Staff and Member training
- Codes of conduct
- Internal audit
- External audit

### Ongoing assessment of our effectiveness

- Annual Governance Questionnaire
- Regular performance and financial reporting
- Annual financial report
- External audit reports
- Internal audit reports
- Officer governance groups
- Customer feedback
- Council's democratic arrangements including scrutiny reviews and the audit committee
- Staff surveys
- Community consultations

### 2021-22 areas identified for improvement in 2022-23

- Transition to standalone Council
- Review of Budget and MTFS
- Review of Corporate Governance arrangements

# ANNUAL GOVERNANCE STATEMENT

## 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.

<b>A. BEHAVING WITH INTEGRITY, DEMONSTRATING STRONG COMMITMENT TO ETHICAL VALUES AND RESPECTING THE RULE OF LAW</b>	
<b>How the Council meets these principles</b>	<b>Where you can see Governance in action</b>
<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 Standards Committee 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. A comprehensive review of the Constitution took place in 2020-21 to ensure that it is an effective and up-to-date document and the new Constitution became effective during 2021-22. The Constitution will be further reviewed and updated to reflect the transition to a standalone Council during 2022-23.</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. Staff must also undertake mandatory e-learning courses throughout the year on such topics to ensure their knowledge and understanding is up to date.</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>The Council has a Monitoring Officer who is a member of the Management Team. They are kept apprised on the Council's projects and actions and are ultimately responsible for legal compliance. The Monitoring Officer also chairs the Corporate Governance Board. During 2021-22 this role was shared with East Hampshire District Council, however going forward will be solely Havant employed.</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. These statutory roles were shared with East Hampshire during 2021-22, however going forward will be solely Havant employed.</p>	<p><a href="#">Councillor Code of Conduct</a> <a href="#">Staff Code of Conduct</a></p> <p><a href="#">Standards Committee</a></p> <p><a href="#">Audit &amp; Finance Committee</a></p> <p><a href="#">Constitution</a></p> <p><a href="#">Anti Fraud &amp; Corruption Policy including Fraud Response Plan</a> <a href="#">Whistleblowing Policy</a></p> <p><a href="#">Declarations of interest</a></p> <p><a href="#">Complaints procedure</a></p> <p><a href="#">Management structure</a></p>

# ANNUAL GOVERNANCE STATEMENT

<b>B. ENSURING OPENNESS AND COMPREHENSIVE STAKEHOLDER ENGAGEMENT</b>	
<b>How the Council meets these principles</b>	<b>Where you can see Governance in action</b>
<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 reviewed on a regular basis. During 2021-22 the Corporate Strategy received a comprehensive refresh and a new, updated Strategy was produced and approved by full Council in February 2022.</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>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. During the Covid-19 pandemic, Council meetings were held remotely and/or in a hybrid manner according to government guidance and legislative requirements at the time, and these have been livestreamed via the Council's website which has resulted in increased public engagement with these meetings. Meetings are now held face to face, however, continue to be livestreamed for the public to view.</p> <p>The Council usually carries out a residents' survey every two years, but during the Covid-19 pandemic has increased the frequency to be able to monitor the concerns and feelings of residents as the situation changes. A full residents' survey is planned for 2022-23.</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 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. During the Covid-19 pandemic, the Communications team have made regular updates to dedicated pages on the website to provide residents and business with reliable information on legislative changes and public health guidance as it has shifted throughout the year.</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</p>	<p><a href="#">Corporate Strategy</a></p> <p><a href="#">Freedom of Information</a></p> <p><a href="#">Committees and Papers</a></p> <p><a href="#">Residents' Survey</a></p> <p><a href="#">Serving You magazine</a>  <a href="#">HBC Facebook</a>  <a href="#">Twitter</a>  <a href="#">Instagram</a></p> <p><a href="http://www.havant.gov.uk/">http://www.havant.gov.uk/</a></p> <p><a href="http://www.havant.gov.uk/accounts">http://www.havant.gov.uk/accounts</a></p> <p><a href="http://norsesoutheast.co.uk/">http://norsesoutheast.co.uk/</a></p>



# ANNUAL GOVERNANCE STATEMENT

<b>D. DETERMINING THE INTERVENTIONS NECESSARY TO OPTIMISE THE ACHIEVEMENT OF THE INTENDED OUTCOMES</b>	
<b>How the Council meets these principles</b>	<b>Where you can see Governance in action</b>
<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. This process has been significantly improved in recent years to increase the robustness of decision making.</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>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 the management team.</p> <p>The Overview &amp; Scrutiny Committee has responsibility for the performance of overview and scrutiny functions under the Local Government Act 2000 Section 9F. The role of Overview &amp; Scrutiny Committee is to hold Cabinet decision makers to account by monitoring and scrutinising the decisions being made, both before and after they take effect. Members of the Overview &amp; Scrutiny Committee must not be members of the Cabinet and, where possible, should be from different political parties.</p>	<p><a href="#">Medium Term Financial Strategy</a></p> <p><a href="#">Council Decisions</a></p> <p><a href="#">Complaints procedure</a></p> <p><a href="#">Internal audit</a></p> <p><a href="#">Overview &amp; Scrutiny Committee</a></p>

<b>E. DEVELOPING THE COUNCIL'S CAPACITY, INCLUDING THE CAPABILITY OF ITS LEADERSHIP AND THE INDIVIDUALS WITHIN IT</b>	
<b>How the Council meets these principles</b>	<b>Where you can see Governance in action</b>
<p>As noted above, during 2021-22 the Council had a joint management team with East Hampshire District Council made up of the Chief Executive, Chief Finance Officer (S151 Officer), Executive Director and the Heads of Service, most of which are shared with East Hampshire District Council. The costs of all shared management posts were shared between the Councils. Going forward as part of the transition to a standalone Council Havant will have its own dedicated management team and this will be in place during 2022-23. The new management team will be solely focussed on delivering the priorities of Havant Borough Council.</p>	<p><a href="#">Management structure</a></p>

# ANNUAL GOVERNANCE STATEMENT

<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 2021-22 new mandatory e-learning courses were introduced for all staff (including health and safety, equality and diversity, and time management), alongside the ongoing leadership development programme, business continuity and emergency planning training, and specialist professional training for frontline services.</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><a href="#">Councillor Competency Framework</a></p>
-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------	--------------------------------------------------------

<b>F. MANAGING THE RISKS AND PERFORMANCE THROUGH ROBUST INTERNAL CONTROL AND STRONG PUBLIC FINANCIAL MANAGEMENT</b>	
<b>How the Council meets these principles</b>	<b>Where you can see Governance in action</b>
<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>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>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 Overview &amp; Scrutiny Committee. 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>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 performance report). The Council has a wide range of performance indicators, which are used to measure progress against the Council's priorities. Performance indicators are reported quarterly to the the senior management team, to Audit and Finance Committee, 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</p>	<p><a href="#">Council structure</a></p> <p><a href="#">Committee structure</a></p> <p><a href="#">Forward Plan</a></p>



# ANNUAL GOVERNANCE STATEMENT

<p>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. The Board's Terms of Reference will be reviewed in light of the management team changes and move to a standalone Council during 2022-23.</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><a href="#">Corporate Governance Policy</a></p> <p><a href="#">Local Code of Corporate Governance</a></p> <p><a href="#">Policy Hub</a></p>
--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------	------------------------------------------------------------------------------------------------------------------------------------------------

<b>G. IMPLEMENTING GOOD PRACTICES IN TRANSPARENCY REPORTING AND AUDIT TO DELIVER EFFECTIVE ACCOUNTABILITY</b>	
<b>How the Council meets these principles</b>	<b>Where you can see Governance in action</b>
<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 an Audit and Finance Committee 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 the management team through the quarterly performance report. Risks rated as above the risk threshold are reported as part of the quarterly performance report to Councillors.</p> <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. Audit and Finance Committee approves the Statement of Accounts.</p> <p>The Council is subject to independent external audit currently by Ernst &amp; Young. The external audit plan outlines the work undertaken and the timing of external audit reports.</p> <p>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 management team, summarising the assurance opinions arising from the internal audit reviews carried out during the year.</p>	<p><a href="#">Statement of Accounts</a></p> <p><a href="#">Audit and Finance Committee</a></p> <p><a href="#">Full Council</a></p> <p><a href="#">Internal audit</a></p>

# ANNUAL GOVERNANCE STATEMENT

<p>The Audit and Finance Committee undertake the core functions of an audit committee.</p>	
<p>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.</p>	

# ANNUAL GOVERNANCE STATEMENT

## 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"> <li>• Following the agreement of the new Constitution the various Council committees were amended in 2020-21. During 2021-22 the new Committee structure was fully established and in operation. The Overview &amp; Scrutiny Committee is responsible for monitoring, scrutinising and holding the decision makers to account. The Audit and Finance Committee ensures that the internal and external audit reports it receives are robust and provides assurance to the Council that the governance processes in place are sufficient. The role of the Standards Committee is to monitor standards of conduct of Members and advise the Council on probity issues.</li> <li>• A significantly improved Councillor Development Programme has been developed with mandatory and optional training modules. This is being rolled out to ensure that Members are equipped with the right skills and knowledge to be able to fulfil their duties.</li> <li>• A new Corporate Strategy covering the period from 2022 to 2025 was developed and approved during 2021-22, to ensure that it best reflects the Council's ambitions for the Borough in the coming years. All councillors were given an opportunity to comment on the draft of the Corporate Strategy. 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.</li> <li>• During the year the Overview &amp; Scrutiny Committee considered numerous items, including quarterly reviews of the Shaping our Future programme and Regeneration programme. Post-scrutiny items included the distribution of business grants during Covid and pre-scrutiny items included the Climate Strategy, the budget and various projects within the Regeneration programme. The full year end Overview &amp; Scrutiny Committee report can be viewed here:  <a href="https://havant.moderngov.co.uk/documents/s44656/HBC%20Annual%20Scrutiny%20Report.pdf">https://havant.moderngov.co.uk/documents/s44656/HBC%20Annual%20Scrutiny%20Report.pdf</a></li> </ul>
Officer leadership	<ul style="list-style-type: none"> <li>• The Council's Constitution underwent a comprehensive review in 2020-21, led by the Monitoring Officer, to ensure that it remains an effective and up-to-date document, and a revised version was approved in January 2021 and came into effect in March 2021 and this was in full operation during 2021-22. The document has been modernised and streamlined in order to make it easier to understand and to put into practice and its introduction is being accompanied by training to ensure that the new version is embedded.</li> <li>• The Corporate Governance Board covers matters of governance covering risk, health and safety, business continuity, emergency planning, information governance and financial risk. Updates are also provided to Audit and Finance Committee through the quarterly performance report which has undergone significant improvements during 2020-21 both in format (with a colour-coded dashboard format now being used to show the performance of different services) and content (with an extended range of quantitative performance indicators now being included). During the year further work on improving performance reporting started with a view to introducing a new performance approach for 2022-23. The Corporate Governance Board Terms of Reference will be reviewed to reflect the new management arrangements to be put in place for 2022-23.</li> </ul>

# ANNUAL GOVERNANCE STATEMENT

<p>Internal assessment and monitoring</p>	<ul style="list-style-type: none"> <li>• There are regular reporting arrangements in place regarding the financial affairs of the Council. The budget for 2021-22 was agreed by Full Council on 24 February 2021 and financial performance is reported on a quarterly basis to Members.</li> <li>• 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. The majority of service performance indicators were met during the year.</li> <li>• The Annual Governance Questionnaire is a survey run every January which asks officers for their self-assessment of the effectiveness of governance arrangements in their service area. Participation has improved in recent years following the extension of the questionnaire to all staff to reflect that good governance is everyone's responsibility - the number of responses received for the January 2022 survey had decreased slightly (13% down) compared to the 2021 survey, although responses were still significantly above the 2020 survey. The results of the questionnaire highlighted the following:             <ul style="list-style-type: none"> <li>○ There were reasonable levels of confidence in governance arrangements, indicated by the majority of scores assigned to 1 ('Evidence of consistently meeting criteria') or 2 ('Meets criteria, but room for improvement').</li> <li>○ Areas of strength:                 <ul style="list-style-type: none"> <li>▪ Regular meetings between managers and staff</li> <li>▪ Compliance with FOI procedure</li> </ul> </li> <li>○ Areas for improvement:                 <ul style="list-style-type: none"> <li>▪ Engaging with Members</li> <li>▪ Awareness of structure of council</li> <li>▪ Feedback from stakeholders</li> </ul> </li> <li>○ Significant changes from 2021 survey:                 <ul style="list-style-type: none"> <li>▪ Although still scoring relatively highly, there was a reduction in evidence of managers meeting to review performance regularly. This is likely as a result of the reliance on remote working and effects of 'working from home fatigue'.</li> <li>▪ A reduction in scoring on the question of seeking feedback from stakeholders when making service planning improvements and this likely reflects the Shaping our Future work and announcement on the movement to a standalone council.</li> </ul> </li> </ul> </li> </ul> <p>Areas that scored poorly in the questionnaire will be targeted with a programme of improvements throughout 2022-23 and the questionnaire will be repeated to see if any trends can be identified. The survey was conducted at the time of the announcement of the split of shared arrangements and hence may have impacted on the responses from a number of staff, in particular around awareness of council structures and stakeholder engagement.</p>
<p>Responsibilities of Chief Finance Officer (s151)</p>	<ul style="list-style-type: none"> <li>• The Chief Finance Officer is the Responsible Financial Officer and is a member of the Management Team, reporting directly to the Chief Executive. They are responsible for delivering and overseeing the financial management arrangements of the Council. Havant Borough Council shared a Chief Finance Officer with East Hampshire District Council for 2021-22, although this will become a solely Havant post in 2022-23 onwards.</li> <li>• They are also responsible for ensuring alignment with the Code of Practice on Local Authority Accounting for 2020-21. 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).</li> </ul>

# ANNUAL GOVERNANCE STATEMENT

Internal audit	<ul style="list-style-type: none"> <li>• 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.</li> <li>• Progress against the audit plan is reported quarterly to the Audit and Finance Committee. Any outstanding high risk actions are addressed as a matter of priority.</li> <li>• Internal audit attend Corporate Governance Board every quarter to provide an update on progress of management actions. Any outstanding actions are reported to the management team to ensure that these are escalated where necessary and completed within a reasonable timescale.</li> <li>• The Southern Internal Audit Partnership delivered 20 internal audit opinions over the course of the year ending 31 March 2021 with 2 'substantial' assurance reports, 14 'reasonable' assurance reports, 4 'limited' assurance report and no 'no assurance' reports. Additional reviews were conducted which did not lead to an audit opinion as they were advisory reviews and/or follow-up reviews.</li> <li>• The Chief Internal Auditor's annual opinion of Havant Borough Council's framework of governance, risk management and management control is reasonable and audit testing has demonstrated controls to be working in practice.</li> </ul>
External audit	<ul style="list-style-type: none"> <li>• The Council's external audit requirement is provided by Ernst &amp; Young LLP.</li> <li>• 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.</li> <li>• The Council's external auditor provided the Council with an unqualified opinion on the last set of accounts approved within their Audit Results Report.</li> <li>• Ernst &amp; Young LLP also provided an unqualified opinion of the Council's arrangements to secure Value for Money.</li> </ul>

# ANNUAL GOVERNANCE STATEMENT

## Last year's key improvement areas

In the 2020-21 Annual Governance Statement, three key issues were identified for improvement. Below are the issues and actions taken during 2021-22.

<b>Improvement area</b>	<b>Issue of concern</b>	<b>Objective and actions taken</b>
Embedding of revised Constitution including codes of conduct and structure of Council	Now that the new Constitution has come into effect, work must continue to ensure that the revised version is embedded and understood by all councillors and officers. This will be key to ensuring that the proper procedures are followed and that the framework of corporate governance remains strong.	Since adoption of the new Constitution there has been regular updates to senior officers and a rolling programme of training for Councillors
Review of the 2021/22 Medium Term Financial Strategy (MTFS)	Considering the recent pandemic response, ensure that the published MTFS remains robust.	During the year as part of the budget setting process it was agreed to establish a Councillor Budget working group to review the budget and MTFS with a mission to present a balanced MTFS going forward.
Review the governance arrangements for the 'Shaping our Future' programme	Ensure that the programme is well governed, with good control of investments and benefits.	The Shaping our Future programme was subject to regular review at the Overview & Scrutiny Committee during the year with quarterly updates provided, these were also provided to Cabinet. Going forward, the work done as part of Shaping our Future will be embedded into the transition and transformation programme of the Council and taken forward during 2022/23.
Compliance with the CIPFA Financial Management (FM) Code	This Code comes into effect from 2022/23 and the Council will need to be compliant.	The (Joint) Councils prepared adequately for the CIPFA Financial Management Code. Havant Borough Council will continue to strengthen its Financial Management arrangements throughout 2022/23, as a standalone council, and will be fully compliant with the Code.

# ANNUAL GOVERNANCE STATEMENT

## 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 2022-23.

Issue of concern	Key improvement	Lead officer	Action required
Ensure a smooth transition to a standalone Council with appropriate governance in place	<p>The Council has committed to move towards a standalone Council, ending the current shared management arrangements with East Hampshire District Council.</p> <p>The move towards a standalone Council after 12 years of shared management presents a number of challenges that need to be overcome and carries a number of risks that will need to be appropriately managed.</p>	Chief Executive	<p>Establishment of a transition team and clear work programme to move towards a standalone Council.</p> <p>Establishment of new management structure and new team structures, where appropriate.</p> <p>Consideration of people, financial, process and IT implications of ending shared arrangements.</p> <p>Ensure appropriate communication plans are in place to ensure staff are kept informed of changes.</p>
Review of the 2022/23 budget and MTFS	The current MTFS as approved at Council in February 2022 highlights significant deficits in the years from 2023 onwards. Historically, although balanced budgets have been set there have been repeated forecasts of future deficits which need to be addressed.	S151 Officer	Budget working group to review current budget and MTFS with the aim to balance the MTFS by October 2022. Finance to review the current budget in light of the move towards a standalone Council to ensure proposed structures are deliverable within the budgetary framework.
Establishment of corporate governance arrangements	As the Council moves towards a standalone Council it is important to ensure that governance arrangements are in place and understood to ensure the smooth running of the authority.	Monitoring Officer	<p>Review the current Corporate Governance Board and ensure its replacement is fit for purpose.</p> <p>Review and ensure all statutory roles are appointed to.</p> <p>Ensure Constitution is updated to reflect new management structure and delegations are adequate.</p>

# ANNUAL GOVERNANCE STATEMENT

## 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



# STATEMENT OF RESPONSIBILITIES

## **The Council's Responsibility**

The Council is required:

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

## **The Chief Finance Officer Responsibility**

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

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

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

The Chief Finance Officer has also:

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

## **Chief Financial Officer Certificate**

I certify that I have fulfilled my responsibilities noted above and that the accounts set out on pages 37 to 90 give a true and fair view of the financial position of the Council as at 31 March 2022 and its income and expenditure for the year ended 31 March 2022.

Malcolm Coe

Chief Finance Officer

## **Approval of Accounts**

The accounts were presented to the Audit and Finance Committee on the xxx and were authorised by the Chairman of the Committee Councillor Inkster.

Chairman of Audit and Finance Committee



## MOVEMENT IN RESERVES

	General Fund Balance	Earmarked Reserves	Capital Receipts Reserve	Capital Grants Unapplied	Total Usable Reserves	Unusable Reserves	Total Authority Reserves
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
<b>2020/21</b>							
Balance at 1 April 2020	(3,500)	(7,065)	(1,470)	(13,612)	(25,648)	(38,140)	(63,787)
Movement in Reserves in 2020/21:							
Surplus (deficit) on the provision of services (accounting basis)	(11,878)	0	0	0	(11,878)	0	(11,878)
Other Comprehensive Income and Expenditure	0	0	0	0	0	554	554
Total Comprehensive Income and Expenditure	(11,878)	0	0	0	(11,878)	554	(11,324)
Adjustments between accounting and funding basis under regulation - note 6	(865)	0	(8,849)	(2,264)	(11,978)	11,978	0
Net increase/decrease before transfers to Earmarked reserves	(12,743)	0	(8,849)	(2,264)	(23,856)	12,532	(11,324)
Transfers to/from Earmarked reserves - note 11	12,733	(12,733)	0	0	0	0	0
(Increase)/Decrease in Year	(10)	(12,733)	(8,849)	(2,264)	(23,856)	12,532	(11,324)
<b>Balance at 31 March 2021</b>	<b>(3,510)</b>	<b>(19,798)</b>	<b>(10,319)</b>	<b>(15,876)</b>	<b>(49,504)</b>	<b>(25,608)</b>	<b>(75,111)</b>

## MOVEMENT IN RESERVES

	General Fund Balance	Ear-marked Reserves	Capital Receipts Reserve	Capital Grants Unapplied	Total Usable Reserves	Unusable Reserves	Total Authority Reserves
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
<b>2021/22</b>							
Balance at 1 April 2021	(3,510)	(19,798)	(10,319)	(15,876)	(49,504)	(25,608)	(75,111)
Movement in Reserves in 2021/22:							
Surplus (deficit) on the provision of services (accounting basis)	3,542	0	0	0	3,542	0	3,542
Other Comprehensive Income and Expenditure	0	0	0	0	0	(15,317)	(15,317)
Total Comprehensive Income and Expenditure	3,542	0	0	0	3,542	(15,317)	(11,775)
Adjustments between accounting and funding basis under regulation - <i>note 6</i>	2,994	0	0	(4,654)	(1,660)	1,660	(0)
Net increase/decrease before transfers to Earmarked reserves	6,536	0	0	(4,654)	1,882	(13,657)	(11,775)
Transfers to/from Earmarked reserves - <i>note 11</i>	(6,382)	6,372	0	0	(10)	0	(10)
Increase/(Decrease) in Year	154	6,372	0	(4,654)	1,872	(13,657)	(11,785)
<b>Balance at 31 March 2022</b>	<b>(3,356)</b>	<b>(13,426)</b>	<b>(10,319)</b>	<b>(20,530)</b>	<b>(47,632)</b>	<b>(39,265)</b>	<b>(86,896)</b>

# BALANCE SHEET

31 March 2021			31 March 2022
£'000			£'000
64,544	Property, Plant and Equipment	<i>Note 14</i>	64,229
32,367	Investment Properties	<i>Note 15</i>	28,163
34	Intangible Assets		24
615	Long Term Debtors	<i>Note 16</i>	629
<b>97,560</b>	<b>LONG TERM ASSETS</b>		<b>93,045</b>
0	Assets Held for Sale		0
22,312	Short Term Debtors	<i>Note 16</i>	16,984
0	Inventories		0
0	Short Term Investments	<i>Note 20</i>	0
45,531	Cash and Cash Equivalents	<i>Cash Flow</i>	54,490
<b>67,843</b>	<b>CURRENT ASSETS</b>		<b>71,474</b>
(32,605)	Short Term Creditors	<i>Note 17</i>	(29,335)
(228)	Bank Overdraft		0
(199)	Provisions	<i>Note 18</i>	(726)
(106)	Short Term Borrowing	<i>Note 18</i>	(237)
(81)	Capital grants receipts in advance	<i>Note 18</i>	(379)
<b>(33,219)</b>	<b>CURRENT LIABILITIES</b>		<b>(30,677)</b>
(4,009)	Capital grants receipts in advance	<i>Note 18</i>	(6,092)
0	Long Term Creditors		0
(1,588)	Provisions		(1,438)
0	Finance Lease		0
(3,152)	Long Term Borrowing	<i>Note 20</i>	(2,921)
(48,325)	Net Defined Pension liability	<i>Note 8</i>	(36,495)
<b>(57,074)</b>	<b>LONG TERM LIABILITIES</b>		<b>(46,946)</b>
<b>75,110</b>	<b>NET ASSETS</b>		<b>86,896</b>
(3,509)	General Fund		(3,354)
(19,797)	Earmarked Reserves	<i>Note 11</i>	(13,425)
(10,320)	Capital Receipts Reserve		(10,320)
(15,876)	Capital grants and contributions		(20,531)
<b>(49,502)</b>	<b>USABLE RESERVES</b>		<b>(47,630)</b>
(38,509)	Revaluation Reserve		(37,316)
(45,069)	Capital Adjustment Account		(41,982)
0	Deferred capital receipts		0
48,325	Pensions Reserve		36,495
9,362	Collection Fund Adjustment Account		3,331
282	Accumulated Absences Account		206
0	Share of Associate		0
<b>(25,609)</b>	<b>UNUSABLE RESERVES</b>	<i>Note 12</i>	<b>(39,266)</b>
<b>(75,111)</b>	<b>TOTAL RESERVES</b>		<b>(86,896)</b>

# CASH FLOW STATEMENT

2020-21		2021-22
£'000		£'000
(12,845)	Taxation	(18,438)
(40,428)	Grants and Contributions	(34,448)
(20,138)	Sales of goods and rendering of services	(19,448)
(28)	Interest received	(35)
(31)	Other receipts from operating activities	(42)
<b>(73,470)</b>	<b>Cash inflows generated from operating activities</b>	<b>(72,411)</b>
10,788	Cash paid to and on behalf of employees	11,337
23,177	Housing benefit payments	21,169
9,720	NNDR Tariff payments	9,720
14,644	Cash paid to suppliers of goods and services	25,960
129	Interest paid	139
3,850	Other operating cash payments	4,314
<b>62,308</b>	<b>Cash outflows generated from operating activities</b>	<b>72,639</b>
<b>(11,162)</b>	<b>Net cashflows from operating activities</b>	<b>228</b>
(8,851)	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	0
1,339	Purchase of property, plant and equipment, investment property and intangible assets	1,635
0	Purchase of short-term and long-term investments	0
0	Proceeds from the sale of short-term and long-term investments	0
0	Other payments for investing activities	0
(4,122)	Other receipts from investing activities	(7,193)
<b>(11,634)</b>	<b>Net cashflows from investing activities</b>	<b>(5,558)</b>
0	Cash Receipts - long/short term borrowing	0
167	Repayments of long/short term borrowing	334
807	Changes in Council Tax balances held for preceptors	946
551	Changes in National Non-Domestic Rates balances held for preceptors	(4,908)
<b>1,525</b>	<b>Net cashflows from financing activities</b>	<b>(3,628)</b>
<b>(21,271)</b>	<b>Net (Increase) / decrease in cash and cash equivalents</b>	<b>(8,958)</b>
23,969	Cash and cash equivalents 1 April	45,532
292	Adjust bank overdraft	0
21,271	Net increase / (decrease) in cash and cash equivalents	8,958
<b>45,532</b>	<b>Cash and cash equivalents 31 March</b>	<b>54,490</b>
5,000	Call accounts and short term deposits	5,049
40,532	Bank balances	49,441
<b>45,532</b>	<b>Cash and cash equivalents 31 March</b>	<b>54,490</b>

# NOTES TO THE ACCOUNTING STATEMENTS

## 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 2021/22 financial year and its position at the year-end of 31 March 2022. 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 2021/22, 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.

# NOTES TO THE ACCOUNTING STATEMENTS

## **3. Accounting for Council Tax and Non Domestic Rates**

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.



# NOTES TO THE ACCOUNTING STATEMENTS

## 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. 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

# NOTES TO THE ACCOUNTING STATEMENTS

- 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.

# NOTES TO THE ACCOUNTING STATEMENTS

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.

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

# NOTES TO THE ACCOUNTING STATEMENTS

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, 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

# NOTES TO THE ACCOUNTING STATEMENTS

- Other instruments with fixed and determinable payments – discounted cash flow analysis

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

- Level 1 inputs – quoted prices (unadjusted) in active markets for identical assets that the authority can access at the measurement date.
- Level 2 inputs – inputs other than quoted prices included within Level 1 that are observable for the 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.

# NOTES TO THE ACCOUNTING STATEMENTS

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;

# NOTES TO THE ACCOUNTING STATEMENTS

- 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

# NOTES TO THE ACCOUNTING STATEMENTS

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



# NOTES TO THE ACCOUNTING STATEMENTS

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:

# NOTES TO THE ACCOUNTING STATEMENTS

- 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.

## 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.

# NOTES TO THE ACCOUNTING STATEMENTS

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

# NOTES TO THE ACCOUNTING STATEMENTS

- 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**

The CIPFA Code of Practice on Local Authority Accounting in the United Kingdom 2021/22 (the Code) requires changes in accounting policy to be applied retrospectively unless alternative transitional arrangements are specified in the Code. The Code requires an authority to disclose information relating to the impact of an accounting change

# NOTES TO THE ACCOUNTING STATEMENTS

that will be required by a new standard that has been issued but not yet adopted by the Code for the relevant financial year.

- Annual Improvements to IFRS Standards 2018–2020. The annual IFRS improvement programme notes 4 changed standards:
- IFRS 1 (First-time adoption) – amendment relates to foreign operations of acquired subsidiaries transitioning to IFRS
- IAS 37 (Onerous contracts) – clarifies the intention of the standard
- IFRS 16 (Leases) – amendment removes a misleading example that is not referenced in the Code material
- IAS 41 (Agriculture) – one of a small number of IFRSs that are only expected to apply to local authorities in limited circumstances:
- Property, Plant and Equipment: Proceeds before Intended Use (Amendments to IAS 16)

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

### 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.

# NOTES TO THE ACCOUNTING STATEMENTS

## **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 2022 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 2022 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).

### **Investment Property**

The Council's valuers use valuation techniques to determine the fair value of investment property. This involves developing estimates and assumptions consistent with how market participants would price the property. The valuers base their assumptions on observable data as far as possible, but this is not always available. In that case, the valuers use the best information available. Estimated fair values may differ from the actual prices that could be achieved in an arm's length transaction at the reporting date. If the value of the Council's investment properties were to reduce by 10% this would lead to a reduction in value of £2.816M.

### **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 2022.

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 2022 based on work down by Anaylse Local.

# NOTES TO THE ACCOUNTING STATEMENTS

## NOTE 5. EXPENDITURE AND FUNDING ANALYSIS

2020-21			2021-22		
Net Expenditure Chargeable to General Fund	Adjustments between Funding and Accounting basis	Net Expenditure in the Comprehensive Income and Expenditure Statement	Net Expenditure Chargeable to General Fund	Adjustments between Funding and Accounting basis	Net Expenditure in the Comprehensive Income and Expenditure Statement
£'000	£'000	£'000	£'000	£'000	£'000
<b>Director of Corporate Services</b>					
504	42	546	(14)	71	57
416	2	418	713	32	745
828	25	853	988	64	1,052
473	77	550	600	57	657
2,820	335	3,155	3,036	336	3,372
2,438	86	2,524	4,017	145	4,162
3,692	1,149	4,841	3,582	1,365	4,947
1,099	86	1,185	1,329	45	1,374
<b>Director of Regeneration and Planning</b>					
193	434	627	314	750	1,064
410	715	1,125	(104)	209	105
290	119	409	1,327	114	1,441
329	(389)	(60)	600	451	1,051
435	403	838	463	311	774
(1,361)	1,907	546	(889)	1,411	522
399	67	466	407	71	478
(21)	(0)	(21)	21	0	21
12,944	5,059	18,003	<b>16,390</b>	<b>5,432</b>	<b>21,822</b>
(25,686)	(4,186)	(29,872)	(9,860)	(8,420)	(18,280)
(12,742)	873	(11,869)	<b>6,530</b>	<b>(2,988)</b>	<b>3,542</b>
			<b>(Surplus) or Deficit on Provision of Services</b>		

## NOTES TO THE ACCOUNTING STATEMENTS

Earmarked Reserves	General Fund	Total		Earmarked Reserves	General Fund	Total
£'000	£'000	£'000		£'000	£'000	£'000
(7,065)	(3,500)	(10,565)	Opening balances	(19,797)	(3,510)	(23,307)
0	(12,742)	(12,742)	(Surplus) or Deficit on Provision of Services	0	6,530	6,530
(12,732)	12,732	0	Transfers between General Fund and earmarked reserves	6,372	(6,372)	0
<b>(19,797)</b>	<b>(3,510)</b>	<b>(23,307)</b>	<b>Closing General Fund balance</b>	<b>(13,425)</b>	<b>(3,352)</b>	<b>(16,777)</b>



## NOTES TO THE ACCOUNTING STATEMENTS

	£'000	£'000	£'000	£'000	£'000
<b>2020-21</b>					
<b>Director of Corporate Services</b>					
5 Councils Staff and Contract	0	44	0	(2)	<b>42</b>
Head of Legal	0	13	0	(12)	<b>2</b>
Head of Organisational Development	1	21	0	3	<b>25</b>
Head of Programmes Redesign	0	37	0	41	<b>77</b>
Head of Customer Services	221	131	0	(17)	<b>335</b>
Head of Strategic Commissioning	0	79	0	8	<b>86</b>
Head of Finance	1,697	0	0	(548)	<b>1,149</b>
Head of Commercial Development	0	51	0	35	<b>86</b>
	0	0	0	0	
<b>Director of Regeneration and Planning</b>					
Head of Coastal Partnerships	15	378	0	42	<b>434</b>
Head of Neighbourhood Support	18	133	0	564	<b>715</b>
Head of Housing	0	57	0	62	<b>119</b>
Head of Planning	(534)	142	0	4	<b>(389)</b>
Head of Community Engagement	430	51	0	(77)	<b>403</b>
Head of Property	339	11	0	1,557	<b>1,907</b>
Head of Regeneration (South)	18	35	0	14	<b>67</b>
Other Operating I&E	0	0	0	(0)	<b>(0)</b>
Cost of Services	2,205	1,183	0	1,671	<b>5,059</b>
Other Income and Expenditure from the Expenditure and Funding Analysis	(11,856)	1,005	8,216	(1,551)	<b>(4,186)</b>
<b>Total for 2020-21</b>	<b>(9,651)</b>	<b>2,188</b>	<b>8,216</b>	<b>120</b>	<b>873</b>

# NOTES TO THE ACCOUNTING STATEMENTS

	Financing and Accounting Adjustments				
	Capital and Assets	Pensions	Tax Collection	Other	Total
	£'000	£'000	£'000	£'000	£'000
<b>2021-22</b>					
<b>Director of Corporate Services</b>					
5 Councils Staff and Contract	0	75	0	(4)	71
Executive Directors	0	32	0	0	32
Head of Legal	1	58	0	5	64
Head of Organisational Development	0	62	0	(5)	57
Head of Programmes Redesign	66	277	0	(6)	336
Head of Customer Services	0	150	0	(5)	145
Head of Strategic Commissioning	1,361	5	0	(2)	1,365
Head of Finance	0	158	0	(113)	45
<b>Director of Regeneration and Planning</b>					
Head of Coastal Partnerships	7	777	0	(783)	0
Head of Neighbourhood Support	(77)	291	0	536	750
Head of Housing	0	119	0	91	209
Head of Planning	149	307	0	(343)	114
Head of Community Engagement	235	75	0	142	451
Head of Property	378	22	0	(89)	311
Head of Regeneration (South)	18	54	0	1,338	1,411
Other Operating I&E	0	0	0	71	71
Cost of Services	2,138	2,461	0	833	5,432
Other Income and Expenditure from the Expenditure and Funding Analysis	(2,170)	0	(6,031)	(218)	(8,420)
<b>Total for 2021-22</b>	<b>(33)</b>	<b>2,461</b>	<b>(6,031)</b>	<b>615</b>	<b>(2,988)</b>

# NOTES TO THE ACCOUNTING STATEMENTS

## NOTE 6. ADJUSTMENTS BETWEEN ACCOUNTING BASIS AND FUNDING BASIS UNDER REGULATIONS

	General Fund Balance	Capital Receipts reserve	Capital grants unapplied	Unusable Reserves	Total
	£'000	£'000	£'000	£'000	£'000
<b>2020-21</b>					
Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement					
Amortise Intangible Assets	(9)			9	0
Depreciation and impairment of non-current assets	(2,203)			2,203	0
Movements in value of Investment Properties	(772)			772	0
Disposal of non-current assets	1			(1)	0
Capital receipts to Usable Capital Receipts Reserve	9,048	(9,048)			0
Capital grants and contributions to Capital Grants Unapplied Reserve	3,586		(3,586)		0
Difference between accounting and statutory employment benefit	(152)			152	(0)
Difference between accounting and statutory credit for Council Tax	72			(72)	0
Difference between accounting and statutory credit for Non-Domestic Rates	(8,288)			8,288	0
Revenue Expenditure Financed from Capital under Statute	(634)			634	0
Difference between accounting and statutory credit for pension costs	(2,188)			2,188	0
REFCUS income	634			(634)	0
Revaluation losses on PPE					0
Capital Grants and Contributions applied					0
Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement	0				
Capital expenditure financed from revenue	239			(239)	0
Statutory Charge MRP					0
Capital expenditure financed from Capital Receipts	(199)	199			0
Capital expenditure financed from Capital grants and contributions			1,322	(1,322)	0
<b>Total for 2020-21</b>	<b>(865)</b>	<b>(8,849)</b>	<b>(2,264)</b>	<b>11,978</b>	<b>(0)</b>

# NOTES TO THE ACCOUNTING STATEMENTS

	General Fund Balance	Capital Receipts reserve	Capital grants unapplied	Unusable Reserves	Total
	£'000	£'000	£'000	£'000	£'000
<b>2021-22</b>					
Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement					
Amortise Intangible Assets	(9)			9	0
Depreciation and impairment of non-current assets	(1,950)			1,950	0
Movements in value of Investment Properties	(4,204)			4,204	0
Disposal of non-current assets	0			0	0
Capital receipts to Usable Capital Receipts Reserve	0	0			0
Capital grants and contributions to Capital Grants Unapplied Reserve	6,374		(6,374)		0
Difference between accounting and statutory employment benefit	75			(75)	(0)
Difference between accounting and statutory credit for Council Tax	296			(296)	0
Difference between accounting and statutory credit for Non-Domestic Rates	5,735			(5,735)	0
Revenue Expenditure Financed from Capital under Statute	(1,307)			1,307	0
Difference between accounting and statutory credit for pension costs	(3,487)			3,487	0
REFCUS income	1,129			(1,129)	0
<i>Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement</i>					
Capital expenditure financed from revenue	99			(99)	0
Statutory Charge MRP	243			(243)	0
Other adjustments					
Capital expenditure financed from Capital Receipts	0	0			0
Capital expenditure financed from Capital grants and contributions			1,720	(1,720)	0
<b>Total for 2021-22</b>	<b>2,994</b>	<b>0</b>	<b>(4,654)</b>	<b>1,660</b>	<b>(0)</b>

# NOTES TO THE ACCOUNTING STATEMENTS

## NOTE 7. EXPENDITURE AND INCOME ANALYSED BY NATURE

2020-21		2021-22
Surplus / Deficit on the Provision of Services		Surplus / Deficit on the Provision of Services
£'000		£'000
13,476	Employee benefits expenses	15,257
57,279	Other service expenses	62,804
134	Interest payments	144
2,212	Depreciation, amortisation, impairment etc	1,959
0	Precepts and levies	0
0	Gains on the disposal of assets	0
<b>73,101</b>	<b>Total Expenditure</b>	<b>80,164</b>
(16,685)	Fees, charges and other service income	(20,836)
772	Investment Properties changes in fair value	4,204
(28)	Interest income	(35)
0	Investment income	0
(13,719)	Council Tax and Non-Domestic Rate income	(19,464)
(46,459)	Grants and Contributions	(40,491)
(8,851)	Gains on the disposal of assets	0
<b>(84,970)</b>	<b>Total income</b>	<b>(76,622)</b>
<b>(11,869)</b>	<b>Net</b>	<b>3,542</b>

# NOTES TO THE ACCOUNTING STATEMENTS

## NOTE 8. DEFINED BENEFIT PENSION SCHEME

2020-21 £'000		2021-22 £'000
	<b>Comprehensive Income and Expenditure Statement</b>	
2,358	Current Service Cost	3,861
12	Curtailments	0
2,370	<b>Cost of Services</b>	3,861
1,022	Net interest expense	1,004
1,022	<b>Financing and Investment Income and Expenditure</b>	1,004
3,392	<b>Total Post Employment Benefit Charged to the Surplus/Deficit on the Provision of Services</b>	4,865
(21,035)	Return on plan assets, less included in interest expense	(5,457)
0	Actuarial gains & losses:	0
0	Changes in demographic assumptions	(1,552)
23,973	Changes in financial assumptions	(8,869)
(1,791)	Other	561
1,147	Remeasurement of the net defined benefit liability	(15,317)
4,722	<b>Total Comprehensive Income and Expenditure Statement</b>	(10,452)
	<b>Movement in Reserves Statement</b>	
3,392	Reversal of items relating to retirement benefit debited or credited to the Comprehensive Income and Expenditure Statement	4,865
(1,204)	Employer's pension contributions and direct payments to pensioners payable in the year	(1,378)
2,188	<b>Total taken to Note 5</b>	3,487
2020-21 £'000	<b>Reconciliation of Fair Value of Employer Assets (scheme Assets):</b>	2021-22 £'000
94,148	Value of Assets at 1 April	112,438
2,110	Interest income on plan assets	2,323
469	Contributions by Members	585
1,204	Contributions by the Employer	1,378
21,035	Return on assets excluding amounts recognised in Other Comprehensive Income	5,457
(6,528)	Benefits Paid	(5,311)
112,438		116,870

## NOTES TO THE ACCOUNTING STATEMENTS

2020-21		2021-22
£'000	<b>Reconciliation of Defined Benefit Obligation (scheme Liabilities):</b>	£'000
(139,138)	Value of Liabilities at 1 April	(160,763)
(2,358)	Current Service Cost	(3,861)
(3,132)	Interest Cost	(3,327)
(469)	Contribution by Members	(585)
	Actuarial Gains and (Losses):	
0	Change in demographic assumptions	1,552
(23,973)	Change in financial assumptions	8,869
1,791	Other experience gains and (losses)	(561)
(12)	Losses on Curtailments	0
6,528	Benefits Paid	5,311
(160,763)		(153,365)
(48,325)	Net Liability at 31st March	(36,495)

2020-21		2021-22
	Mortality assumptions:	
	Longevity at 65 for current pensioners:	
23.1	Men	22.9
25.5	Women	25.4
	Longevity at 45 for future pensioners:	
24.8	Men	24.7
27.3	Women	27.1

2020-21		2021-22
2.7%	Rate of inflation (CPI)	3.0%
3.7%	Rate of increase in salaries	4.0%
2.7%	Rate of increase in pensions	3.0%
2.1%	Rate for discounting scheme liabilities	2.7%

# NOTES TO THE ACCOUNTING STATEMENTS

## Fair value of employer assets

The assets at the year-end listed above are made up of the following categories:

31 March 2021			31 March 2022			
Quoted Prices in Active Markets	Prices not quoted in Active markets	Total	Asset Category	Quoted Prices in Active Markets	Prices not quoted in Active markets	Total
%	%	%		%	%	%
49.40%	7.60%	57.00%	<b>Equities</b>	<b>45.80%</b>	<b>11.10%</b>	<b>56.90%</b>
0.80%	5.30%	6.10%	<b>Property</b>	<b>0.90%</b>	<b>6.00%</b>	<b>6.90%</b>
17.30%	0.00%	17.30%	<b>Government Bonds</b>	<b>17.20%</b>	<b>0.00%</b>	<b>17.20%</b>
0.00%	0.00%	0.00%	<b>Corporate Bonds</b>	<b>0.00%</b>	<b>0.00%</b>	<b>0.00%</b>
1.40%	0.00%	1.40%	<b>Cash</b>	<b>0.90%</b>	<b>0.00%</b>	<b>0.90%</b>
15.90%	2.30%	18.20%	<b>Other</b>	<b>14.60%</b>	<b>3.50%</b>	<b>18.10%</b>
<b>84.80%</b>	<b>15.20%</b>	<b>100.00%</b>	<b>Totals</b>	<b>79.40%</b>	<b>20.60%</b>	<b>100.00%</b>

## Basis for Estimating Assets and Liabilities

Liabilities have been assessed on an actuarial basis using the projected unit credit method, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels, etc. The Local Government Pension scheme liabilities have been assessed by Aon, estimates being based on the latest full valuation of the scheme as at 31 March 2019.

## Sensitivity analysis

The estimation of the defined benefit obligations is sensitive to the actuarial assumptions set out in the table above. The sensitivity analyses below have been determined based on reasonably possible changes of the assumptions occurring at the end of the reporting period.

Impact on the defined benefit obligation in the scheme	Increase in assumption	Base Figure	Decrease in assumption
Post retirement mortality (increase or decrease in 1 year)	147,457	152,647	157,837
Rate of increase in salaries (increase or decrease by 0.1%)	152,800	152,647	152,494
Rate of increase in pensions (increase or decrease by 0.1%)	155,242	152,647	150,205
Rate for discounting scheme liabilities (increase or decrease by 0.1%)	149,899	155,395	162,867

## NOTE 9. INCOME FROM GRANTS AND CONTRIBUTIONS



# NOTES TO THE ACCOUNTING STATEMENTS

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

2020/21 £'000		2021/22 £'000
(24,068)	DWP benefits grants	(20,940)
(634)	Grants for revenue financed from capital under statute	(1,129)
(1,100)	Council tax hardship	0
(3,522)	Other Grants and Contributions	(5,815)
(29,324)	<b>Total within Cost of Services</b>	<b>(27,884)</b>
(1,041)	Sales fees and Charges	(185)
(2,121)	Covid LA Support Grant	(743)
(902)	New Homes Bonus	(347)
(9,217)	Business Rate Grants	(3,766)
(267)	Other non-specific grant	(1,193)
(3,586)	Grants and contributions towards capital expenditure	(6,374)
(17,134)	<b>Total within Taxation and non-specific grant income</b>	<b>(12,608)</b>
(46,458)	<b>Total income from grants and contributions</b>	<b>(40,492)</b>

## NOTE 10. MATERIAL ITEMS OF INCOME AND EXPENDITURE

The Council did not purchase or sell any significant assets during the year.

# NOTES TO THE ACCOUNTING STATEMENTS

## NOTE 11. EARMARKED RESERVES

The Council maintains a number of Earmarked Reserves for a variety of purposes. Below is an analysis of the Council's reserves showing the movements and transfers that took place.

	Balance at 31 March 2020	Transfers out 2020/21	Transfers in 2020/21	Balance at 31 March 2021	Transfers out 2021/22	Transfers in 2021/22	Balance at 31 March 2022
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
General Fund - earmarked	(23)		0	(23)	0	0	(23)
S31 Grant Reserve	0	0	(8,623)	(8,623)	0	5,237	(3,386)
Insurance Reserve	(653)	0	0	(653)	0	0	(653)
Capital Reserve	0	0	0	0	0	0	0
Restructuring Reserve	(418)	0	0	(418)	0	0	(418)
Financial Management Reserve	(3,867)	0	0	(3,867)	0	0	(3,867)
Externally funded Reserve - earmarked reserve	(609)	609	0	0	0	0	0
Service Support Reserve	(114)	0	(1,190)	(1,304)	0	1,135	(169)
Regeneration Reserve	(431)	0	(559)	(990)	0	0	(990)
Regeneration Investment Framework Reserve	(950)	0	0	(950)	0	0	(950)
Covid Financial Resilience Reserve	0		(2,180)	(2,180)	0	0	(2,180)
Pensions Resilience Reserve	0	0	(789)	(789)	0	0	(789)
<b>Total</b>	<b>(7,065)</b>	<b>609</b>	<b>(13,341)</b>	<b>(19,797)</b>	<b>0</b>	<b>6,372</b>	<b>(13,425)</b>

The purposes of these reserves are set out below:

General Fund Earmarked Reserve	To fund specific projects
S31 Grant Reserve	To hold S31 grant balances due to timing of when the grant is received and when it is applied.
Insurance Reserve	To fund any insurance claims below the excess during the year.
Capital Reserve	To fund specific capital projects.
Restructuring Reserve	To fund costs associated with the restructure of the Council.
Financial Management reserve	To meet any potential future financial liabilities that may arise (for example insurance claims)
Externally Funded Reserve	These are all external contributions which are committed to specific projects.

# NOTES TO THE ACCOUNTING STATEMENTS

ServiceSupport Reserve	To cover specific service projects which may arise in the future (e.g. economic development work or Local Plan work)
Regeneration Reserve	To ring fence income from Meridien for future economic development
Covid Financial Resilience Reserve	To provide financial resilience to the Council post Covid.
Regeneration Investment Framework Reserve	To provide funding for future regeneration of the Borough
Pensions Resilience Reserve	To provide funding for pension in the future to help mitigate the deficit.

## NOTE 12. UNUSABLE RESERVES

	Balance 1 April 2020 £'000	Comp- rehensive I&E £'000	Accounting - Financing Adjust. £'000	Balance 31 March 2021 £'000
Revaluation Reserve	(39,943)	(593)	2,026	(38,510)
Capital Adjustment Account	(44,465)	0	(604)	(45,069)
Pensions Reserve	44,990	1,147	2,188	48,325
Collection Fund Adjustment Account	1,148	0	8,216	9,364
Accumulated Absences Account	130	0	152	282
<b>Total for 2020-21</b>	<b>(38,140)</b>	<b>554</b>	<b>11,978</b>	<b>(25,608)</b>

	Balance 1 April 2020 £'000	Comp- rehensive I&E £'000	Accounting - Financing Adjust. £'000	Balance 31 March 2022 £'000
Revaluation Reserve	(38,510)	0	1,193	(37,317)
Capital Adjustment Account	(45,069)	0	3,086	(41,983)
Pensions Reserve	48,325	(15,317)	3,487	36,495
Collection Fund Adjustment Account	9,364	0	(6,031)	3,333
Accumulated Absences Account	282	0	(75)	207
<b>Total for 2021-22</b>	<b>(25,608)</b>	<b>(15,317)</b>	<b>1,660</b>	<b>(39,265)</b>

# NOTES TO THE ACCOUNTING STATEMENTS

## Capital Adjustment Account

2020-21 £000		2021-22 £000
(44,465)	Balance 1 April	(45,069)
	Accounting / Financing Adjustments:	
9	Write down Intangible Assets	9
2,203	Depreciation and impairment of non-current assets	1,950
772	Movements in value of Investment Properties	4,204
0	Gain or (loss) on sale of non-current assets	0
634	Revenue Expenditure Financed from Capital under Statute	1,307
	Revenue Expenditure Financed from Capital under Statute -	
(634)	Income	(1,129)
0	Capital expenditure financed from revenue	(99)
0	Capital expenditure financed from Capital Receipts	0
	Capital expenditure financed from Capital grants and	
(1,323)	contributions	(1,720)
(239)	MRP	(243)
(2,026)	Depreciation charged to Revaluation Reserve	(1,193)
<b>(45,069)</b>	<b>Balance 31 March</b>	<b>(41,983)</b>

## Revaluation Reserve

2020-21 £000		2021-22 £000
(39,943)	Balance 1 April	(38,510)
	Comprehensive Income & Expenditure:	
(593)	Gain on revaluation of assets	0
	Accounting / Financing Adjustments:	
2,026	Depreciation charged to Revaluation Reserve	1,193
<b>(38,510)</b>	<b>Balance 31 March</b>	<b>(37,317)</b>

# NOTES TO THE ACCOUNTING STATEMENTS

## Pensions Reserve

2020-21		2021-22
£000		£000
44,990	Balance 1 April	48,325
1,147	Comprehensive Income & Expenditure: Remeasurement of the net defined benefit liability	(15,317)
2,188	Accounting / Financing Adjustments: Difference between accounting and statutory credit for pension costs	3,487
<b>48,325</b>	<b>Balance 31 March</b>	<b>36,495</b>

## Collection Fund Adjustment Account

2020-21		2021-22
£000		£000
1,148	Balance 1 April	9,364
(72)	Accounting / Financing Adjustments: Difference between accounting and statutory credit for Council Tax	(296)
8,288	Difference between accounting and statutory credit for Non-Domestic Rates	(5,735)
<b>9,364</b>	<b>Balance 31 March</b>	<b>3,333</b>

## Accumulated Absences Account

2020-21		2021-22
£000		£000
130	Balance 1 April	282
152	Accounting / Financing Adjustments: Difference between accounting and statutory employment benefit	(75)
<b>282</b>	<b>Balance 31 March</b>	<b>207</b>

# NOTES TO THE ACCOUNTING STATEMENTS

## NOTE 13. CAPITAL EXPENDITURE AND FINANCING

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

The Capital Financing Requirement (CFR) is made up of the following balance sheet items.

2020-21 £'000		2021-22 £'000
13,606	Opening Capital Financing Requirement 1 April	13,368
	<i>Capital Investment</i>	
1,322	Property, Plant and Equipment	1,635
0	Investment properties	0
1	Intangible assets	0
634	Revenue Expenditure Funded from Capital under Statute (REFCUS)	1,307
	<i>Sources of finance</i>	
0	Capital receipts	0
(1,322)	Government grants and other contributions	(1,719)
0	Sums set aside from revenue and reserves	(99)
(634)	Grants and contributions towards REFCUS	(1,129)
(239)	MRP	(243)
13,368	Closing Capital Financing Requirement 31 March	13,120
		<b>31 March</b>
		<b>2022</b>
		<b>£'000</b>
64,104	Property, Plant and Equipment	64,229
32,367	Investment Properties	28,163
34	Intangible Assets	24
0	Assets Held for Sale	0
(39,043)	Revaluation Reserve	(37,316)
(44,094)	Capital Adjustment Account	(41,982)
13,368		13,118

# NOTES TO THE ACCOUNTING STATEMENTS

## NOTE 14. PROPERTY, PLANT AND EQUIPMENT

	Land & Buildings	Vehicles Plant etc	Infra-structure	Commun. Assets	Assets under Construction	Surplus Props.	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Cost:							
Opening value 1 April 2020	61,092	5,780	2,960	3,003	0	0	72,835
Additions	130	56	846	0	290	0	1,322
Disposals	0	0	0	0	0	0	0
Impairment losses	(285)	0	0	0	0	0	(285)
Reclassifications	97	344	(1,012)	(67)	0	0	(638)
Revaluations	119	0	(980)	0	0	0	(861)
<b>Value 31 March 2021</b>	<b>61,153</b>	<b>6,180</b>	<b>1,814</b>	<b>2,936</b>	<b>290</b>	<b>0</b>	<b>72,373</b>
Cumulative Depreciation:							
Opening value 1 April 2020	(405)	(5,317)	(476)	(1,166)	0	0	(7,364)
Charge for the year	(1,758)	(75)	(63)	(23)	0	0	(1,919)
Disposals	0	0	0	0	0	0	0
Reclassifications	(114)	(186)	300	0	0	0	0
Revaluations	1,454	0	0	0	0	0	1,454
<b>Balance 31 March 2021</b>	<b>(823)</b>	<b>(5,578)</b>	<b>(239)</b>	<b>(1,189)</b>	<b>0</b>	<b>0</b>	<b>(7,829)</b>
<b>Net book value 31 March 2021</b>	<b>60,330</b>	<b>602</b>	<b>1,575</b>	<b>1,747</b>	<b>290</b>	<b>0</b>	<b>64,545</b>

# NOTES TO THE ACCOUNTING STATEMENTS

	Land & Buildings	Vehicles Plant etc	Infra-structure	Commun. Assets	Assets under Const-ruktion	Surplus Props.	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
<b>Cost:</b>							
Opening value 1 April 2020	61,153	6,180	1,814	2,936	290	0	72,373
Additions	180	243	1,162	0	50		1,635
Disposals							0
Impairment losses							0
Reclassifications							0
Revaluations							0
<b>Value 31 March 2021</b>	<b>61,333</b>	<b>6,423</b>	<b>2,976</b>	<b>2,936</b>	<b>340</b>	<b>0</b>	<b>74,008</b>
<b>Cumulative Depreciation:</b>							
Opening value 1 April 2020	(823)	(5,578)	(239)	(1,189)	0	0	(7,829)
Charge for the year	(1,790)	(72)	(64)	(23)			(1,949)
Disposals							0
Reclassifications							0
Revaluations							0
<b>Balance 31 March 2021</b>	<b>(2,613)</b>	<b>(5,650)</b>	<b>(303)</b>	<b>(1,212)</b>	<b>0</b>	<b>0</b>	<b>(9,778)</b>
<b>Net book value 31 March 2021</b>	<b>58,720</b>	<b>773</b>	<b>2,673</b>	<b>1,724</b>	<b>340</b>	<b>0</b>	<b>64,230</b>

Assets are revalued on a 5-year programme. The useful economic life of operational land and buildings is also assessed. An annual desktop assessment is also carried out at the end of each financial year, and the values are updated where necessary. Assets are assessed at each year-end as to whether there is any indication that an asset may be impaired.

There are no quoted prices for identical assets, but there are values available for similar assets, so it has been possible to value them at Level 2 of the Fair Value hierarchy (see Note 2.9 above), both at the start and end of the financial year.

The following table shows the split of the certified valuations for Property plant and equipment across the financial years. (Please note this will be updated once the valuations have been received from property services)

	Land & Buildings	Vehicles Plant etc	Infra-structure	Community Assets	Assets under Const-ruktion	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Carried at historical cost:		6,180	1,814	2,936	290	11,220
Carried at fair value as at:						
31-Mar-21	41,625					41,625
31-Mar-20	7,035					7,035
31-Mar-19	1,628					1,628



## NOTES TO THE ACCOUNTING STATEMENTS

	31-Mar-18	5,028					5,028
	31-Mar-17	5,837					5,837
Total cost or valuation		<b>61,153</b>	<b>6,180</b>	<b>1,814</b>	<b>2,936</b>	<b>290</b>	<b>72,373</b>

### Capital Commitments

At 31 March 2022, there were no material capital commitments outstanding

At 31 March 2022 there were no other commitments relating to capital expenditure on Property Plant and Equipment.

# NOTES TO THE ACCOUNTING STATEMENTS

## NOTE 15. INVESTMENT PROPERTIES

The following items of income and expense have been accounted for in the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement:

<b>2020-21</b>		<b>2021-22</b>
£'000		£'000
(2,351)	Rental income from investment property	(1,437)
573	Direct operating expenses arising from investment property	174
772	Net gains from fair value adjustments	4,204
<u>(1,006)</u>	Total	<u>2,941</u>

Balance Sheet movements in Investment Properties during the year:

<b>2020-21</b>		<b>2021-22</b>
£'000		£'000
32,501	Balance at start of the year	32,367
0	Additions	0
(772)	Net gains from fair value adjustments	(4,204)
638	Assets reclassified to Property Plant & Equipment	0
<u>32,367</u>	Balance at end of the year	<u>28,163</u>

The Council's Investment Properties consist of commercial properties let at market rents. There are no quoted prices for identical properties, and also no significant observable values for similar properties. Values have therefore been assessed under Level 3 of the Fair Value hierarchy (see Note 2.9 above), both at the start and end of the financial year. They are measured using the income approach, by means of the discounted cash flow method, where the discounted cash flows from the properties are discounted (using a market-derived discount rate) to establish the present value of the net income stream. In all cases the highest and best use for these assets is their current use.

# NOTES TO THE ACCOUNTING STATEMENTS

## NOTE 16. DEBTORS

31 March 2021		31 March 2022
£'000		£'000
	Amounts falling due within one year:	
677	Central government bodies	600
9,710	Central Government bodies - Business rates	2,807
4,746	Other Local Authorities & Public Bodies	8,140
1,942	Other Local Authorities & Public Bodies - business rates	561
0	NHS	15
9,143	All other bodies	8,985
	Less allowances for expected credit losses	
(635)	General Fund debtors	(1,143)
(2,810)	Housing benefit Overpayments	(2,361)
(214)	Council Tax Arrears	(236)
(246)	Business Rates Arrears	(384)
<hr/> 22,313	Total short term debtors	<hr/> <b>16,984</b>
615	Amounts falling due after one year (all other bodies)	629
<hr/> <b>22,928</b>	Total Debtors	<hr/> <b>17,613</b>



# NOTES TO THE ACCOUNTING STATEMENTS

## NOTE 19. CAPITAL GRANTS RECEIPTS IN ADVANCE

31 March 2021	£'000		31 March 2022	£'000
		Amounts falling due within one year:		
	0	S106		0
	(81)	Other		(379)
	<u>(81)</u>	Total short term capital grants received in advance		<u>(379)</u>
		Amounts falling due after one year (all other bodies)		
	(2,449)	S106		(4,610)
	(1,560)	Other		(1,482)
	<u>(4,009)</u>	Total long term capital grants received in advance		<u>(6,092)</u>

# NOTES TO THE ACCOUNTING STATEMENTS

## NOTE 20. FINANCIAL INSTRUMENTS

### Categories of Financial Instruments

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

31 March 2021			31 March 2022	
Book Value	Fair Value		Book Value	Fair Value
£,000	£,000		£,000	£,000
615	615	Financial assets at amortised Cost	629	629
<b>615</b>	<b>615</b>	<b>Long term Assets</b>	<b>629</b>	<b>629</b>
2,215	2,215	Short Term Debtors	2,093	2,093
45,532	45,532	Cash and bank accounts	54,490	54,490
<b>47,747</b>	<b>47,747</b>	<b>Other financial assets at amortised cost</b>	<b>56,582</b>	<b>56,582</b>
<b>48,362</b>	<b>48,362</b>	<b>Total Financial Assets</b>	<b>57,212</b>	<b>57,212</b>
31 March 2021			31 March 2022	
Book Value	Fair Value		Book Value	Fair Value
£,000	£,000		£,000	£,000
(106)	(106)	Public Works Loan Board	(237)	(106)
(6,373)	(6,373)	Short Term Creditors	(5,987)	(5,987)
<b>(6,479)</b>	<b>(6,479)</b>	<b>Short Term Financial liabilities at amortised cost</b>	<b>(6,224)</b>	<b>(6,093)</b>
(3,152)	(3,930)	Public Works Loan Board	(2,921)	(3,530)
<b>(3,152)</b>	<b>(3,930)</b>	<b>LongTerm Liabilities at amortised cost</b>	<b>(2,921)</b>	<b>(3,530)</b>
<b>(9,631)</b>	<b>(10,409)</b>	<b>Total Financial Liabilities</b>	<b>(9,144)</b>	<b>(9,623)</b>

The value of debtors and creditors reported in the table above are solely those amounts meeting the definition of a financial instrument. The balances of debtors and creditors reported in the balance sheet and Notes 17 and 18 also include balances which do not meet the definition of a financial instrument, such as tax-based debtors and creditors.

# NOTES TO THE ACCOUNTING STATEMENTS

## Valuation Techniques for Fair Values

The fair values valuations have been provided by the Council's Treasury Management advisor, Link Asset Services. This uses the Net Present Value (NPV) approach, which provides an estimate of the value of payments in the future in today's terms. This is a widely accepted valuation technique commonly used by the private sector. The discount rate used in the NPV calculation should be equal to the current rate in relation to the same instrument from a comparable lender. This will be the rate applicable in the market on the date of valuation, for an instrument with the same duration i.e. equal to the outstanding period from valuation date to maturity. The structure and terms of the comparable instrument should be the same.

Fair values in the tables above are calculated in line with the levels described in Accounting Policy 2.9 above. The Fair value through the profit and loss assets are assessed at Level 1 (quoted price), while the others are at Level 2 (observable inputs other than quoted prices).

For loans from the PWLB, valued in line with level 2, new loan rates from the PWLB have been applied to provide the fair value.

## Nature and Extent of Risks arising from Financial instruments

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

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

The Council's overall risk management procedures focus on the unpredictability of financial markets and seek to minimise the potential adverse effects on the resources available to fund services. The procedures for risk management are set out through a legal framework in the Local Government Act 2003 and associated regulations. These require the Council to comply with CIPFA Prudential Code, the CIPFA Code of Practice on Treasury Management in the Public Services and Investment Guidance issued through the Act. Risk Management is carried out by the Financial Services Team in accordance with the policies laid out in the Annual Treasury Management Strategy Statement and Annual Investment Strategy, which govern the maximum type of investment risk to which the Council can be exposed.

## Credit Risk

Credit risk arises from deposits with banks and financial institutions, as well as credit exposures to the Council's customers. The risk is minimised through the Annual Investment Strategy, which requires that deposits are not made with financial institutions unless they meet minimum credit criteria using the Link Asset Services creditworthiness model. The model uses a sophisticated modelling approach which uses credit ratings from all three ratings agencies (Fitch, Moody's and Standard and Poor's) overlaid with credit watches and outlooks, Credit Default Swap spreads and sovereign ratings. Deposits are not made with banks or financial institutions unless they are rated independently with a minimum score. The minimum score will depend on the type and length of investment as detailed in the Council's Treasury Management Strategy Statement and Annual Investment Strategy. Credit limits are set for each institution where deposits are placed.

The credit criteria in respect of the financial assets held by the Council at 31 March 2022 are summarised below.

- i. All investments will be with approved counterparties from countries with a minimum sovereign credit rating of AA- from Fitch.
- ii. The total principal funds invested for up to 6 months is 50%
- iii. The total principal funds invested for up to 3 months is 50%
- iv. The total principal funds invested for up to 1 year is 30%
- v. The total principal funds invested for more than 1 year is £10million

A copy of the Annual Treasury Management Strategy Statement Annual Investment Strategy is available on the Council's website.

# NOTES TO THE ACCOUNTING STATEMENTS

The following analysis summarises the Council's potential maximum exposure to credit risk, based on a review during 2021/22 of past experience:

The council does not generally allow credit for customers such that [£1.542m] is past due for payment. The past due not impaired is analysed as follows'

31 March 2021		31 March 2022
£'000		£'000
989	0-30 days	2,006
54	31-90 days	29
65	91-180 days	36
434	Over 180 days	751
<u>1,542</u>	<b>Total</b>	<u>2,822</u>

Debtors include trade receivables of £2.822m as at 31 March 2022 (£1.542m as at 31 March 2021). The Council has provided £0.870m (31 March 2021 £0.453m) as a general impairment allowance for non-collection of this debt.

## Liquidity Risk

The Council has a robust cash flow management system that seeks to ensure that cash is available as needed. If unexpected movements happen, the Council has access to borrowings from the Public Works Loans Board for long term funding and substantial reserves. Interest rate risk is managed through the Council's Medium Term Financial Strategy Reserve. There is no significant risk that it will be unable to raise finance to meet its commitments under financial instruments.

31 March 2021	PWLB	31 March 2022
£'000		£'000
102	Less than one year	105
107	Between one and two years	109
605	Between two and five years	355
682	Maturing in five to ten years	696
<u>1,756</u>	Maturing in more than ten years	<u>1,887</u>
<u>3,252</u>	<b>Total</b>	<u>3,152</u>

## Market Risk

The Council is exposed to risk in terms of its exposure to interest rate movements on its investments. Changes in interest rates on variable rate investments will be posted to the Comprehensive Income and Expenditure Statement and affect the General Fund balance. The average investment rate for the reported year was 0.07%.

If interest rates had been 1% higher as at 31 March 2022 with all other variables held constant, the financial effect would be:

	£'000
Increase in interest receivable on variable rate investments	(540)
<b>Impact on Surplus/Deficit on Provision of Services</b>	<b>(540)</b>



# NOTES TO THE ACCOUNTING STATEMENTS

Borrowings are not carried at fair value on the balance sheet, so nominal gains and losses on fixed rate borrowings would not impact on the Surplus or Deficit on the Provision of Services and affect the General Fund Balance.

## NOTE 21. AGENCY SERVICES

Agency Services are services that the authority provides on behalf of another organisation. The Authority acts as an agent for the collection of Council Tax and Business Rates as an agent for major precepting bodies and Central Government. Income and Expenditure relating to these arrangements are disclosed within the Collection Fund outturn. The Authority acts as an agent for the South Downs National Park for certain planning services. The Authority also acts as an agent on behalf of Central Government for the payment of Housing Benefit. The cost of providing Housing Benefit is met from subsidy paid by Government.

Covid Grants paid on agency basis		Income	Expenditure	Repayment of Excess	Total to be re-paid
		£'000	£'000	£'000	£'000
<b>Financial Year: 2020-21</b>					
Local Restrictions Support Grant (Closed) Addendum		(1,675)	991		(684)
Local Restrictions Support Grant (Open)		(228)	23		(205)
Local Restrictions Support Grant (Closed) 5 Jan 21 onwards		(6,174)	3,599		(2,575)
Business Grants		(25,004)	17,298	7,558	(148)
Closed Business Support Payment		(5,022)	2,948		(2,074)
Test & Trace		(314)	87		(227)
<b>TOTAL</b>		<b>(38,417)</b>	<b>24,946</b>	<b>7,558</b>	<b>(5,913)</b>
Covid Grants paid on agency basis	B/f	Income	Expenditure	Repayment of Excess	Total to be re-paid
	£'000	£'000	£'000	£'000	£'000
<b>Financial Year: 2021-22</b>					
Local Restrictions Support Grant (Closed) Addendum	(684)		9	679	4
Local Restrictions Support Grant (Open)	(205)			205	0
Local Restrictions Support Grant (Closed) 5 Jan 21 onwards	(2,575)	0	49	2,516	(10)
Business Grants	(148)	0	(43)	191	0
Closed Business Support Payment	(2,074)	0	27	2,041	(6)
Christmas Support Grants		(32)	26	6	0
Restart Grants		(5,268)	4,229		(1,039)
Omricon Business Grants		(882)	422		(460)
Household Support		(140)			(140)
Test & Trace	(227)	0	0		(227)
<b>TOTAL</b>		<b>(6,322)</b>	<b>4,719</b>	<b>5,638</b>	<b>(1,878)</b>

# NOTES TO THE ACCOUNTING STATEMENTS

## NOTE 22. LEASES –

### Authority as Lessee

The Authority may enter into lease arrangements to obtain assets used to provide services as an alternative to purchasing. Additionally, the Authority also leases out assets, for example, to community organisations. Lease arrangements may be finance or operating leases. The purpose of this note is to disclose the nature and extent of the Authority's leasing obligations.

### Lease Classifications

Leases are classified either as finance leases or operating leases. A finance lease is an arrangement where substantially all of the risks and rewards that are incidental to ownership of the asset, transfer from the lessor to the lessee. Leases that do not transfer substantially all of the risk and rewards are classified as operating leases. Where an arrangement includes both land and buildings, the land and buildings element are considered separately for classification and leases of land are generally considered to be operating leases.

### Authority as Lessee: Finance Leases

The Authority does not lease any of its assets under a finance lease agreement.

### Authority as Lessor: Operating Leases

The Authority leases land and property under operating leases for the following purposes:

- For the provision of community services including sports facilities, community centres and village halls.
- For economic development purposes, to provide affordable retail accommodation for local business.
- To provide allotment space for local residents.

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

31 March 2021		<b>31 March 2022</b>
£'000		<b>£'000</b>
2,435	Not later than one year	<b>1,522</b>
8,189	Later than one year and not later than five years	<b>4,879</b>
60,686	Over 5 years	<b>58,366</b>
<hr/>		<hr/>
71,310		<b>64,767</b>

# NOTES TO THE ACCOUNTING STATEMENTS

## NOTE 23. MEMBERS' ALLOWANCES

Allowances and expenses paid to Councillors during the year were:

2020-21 £'000		2021-22 £'000
325	Members Allowances	319
<u>0</u>	Expenses	<u>1</u>
<u>325</u>		<u>320</u>

# NOTES TO THE ACCOUNTING STATEMENTS

## NOTE 24. OFFICERS' REMUNERATION AND EXIT PACKAGES

### Senior Officer Remuneration

The Council's Senior Employees' remuneration and expenses was as follows:

Post holder information (Post title)	Salary (Inc. fees & Allowances)	Pension Contributions**	Net cost to Havant	Net cost to East Hants	Total Remuneration
	£	£			£
<b>Financial Year: 2020-21</b>					
Chief Executive	139,087	15,972	77,529	79,145	156,674
Director for Regeneration & Place	102,035	10,394	56,214	60,243	116,457
Director for Corporate Services & Chief Finance Officer	105,104	11,005	58,054	60,368	118,422
<b>TOTAL COST</b>	<b>346,226</b>	<b>37,371</b>	<b>191,797</b>	<b>199,755</b>	<b>391,552</b>

Post holder information (Post title)	Salary (Inc. fees & Allowances)	Pension Contributions**	Net cost to Havant	Net cost to East Hants	Total Remuneration
	£	£			£
<b>Financial Year: 2021-22</b>					
Chief Executive*	203,412	23,649	tbc	tbc	227,061
Director for Regeneration & Place*	144,232	17,989	tbc	tbc	162,221
Director for Corporate Services & Chief Finance Officer	106,639	18,555	62,597	62,597	125,194
<b>TOTAL COST</b>	<b>454,283</b>	<b>60,193</b>	<b>62,597</b>	<b>62,597</b>	<b>514,476</b>

\* Additional payments were approved for these two officers by EHDC in March 2022. Further payments have been processed in April 2022 which will be represented within the 2022/23 Statement of Accounts.

# NOTES TO THE ACCOUNTING STATEMENTS

## Salaries over £50,000

2020-21		2021-22
8	£50,000 - £54,999	6
3	£55,000 - £59,999	3
5	£60,000 - £64,999	5
2	£65,000 - £69,999	1
1	£70,000 - £74,999	1
2	£75,000 - £79,999	3
2	£80,000 - £84,999	1
1	£85,000 - £89,999	1
0	£90,000 - £94,999	0
0	£95,000 - £99,999	0
0	£100,000 - £104,999	0
<hr/>		
24		21

# NOTES TO THE ACCOUNTING STATEMENTS

## Exit Packages

2020/21				Banding	2021-22			
Compuls. Redund.	Other departures	Total exit packages	Cost	Number of exit packages	Compuls. Redund.	Other departures	Total exit packages	Cost
			Total £					Total £'000
0	0	0	0	£0 - £20,000	1	0	1	3
0	0	0	0	£20,001 - £40,000	1	0	1	21
0	0	0	0	£40,001 - £60,000	0	0	0	0
0	0	0	0	£60,001 - £80,000	0	0	0	0
0	0	0	0	£80,001 - £100,000	0	0	0	0
0	0	0	0	£100,001 -	0	0	0	0
				£150,000				
0	0	0	0		2	0	2	24

## NOTE 25. EXTERNAL AUDIT COSTS

Fees were payable to EY as the Council's external auditors as follows:

2020-21 £'000		2021-22 £'000
36	External audit services*	38
0	Other services	0
36		38

\*Final fees to be agreed

## NOTE 26. RELATED PARTIES

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

### Central Government

Central government has significant influence over the general operations of the Authority – it is responsible for providing the statutory framework within which the Authority operates, provides the majority of its funding in the form of grants and prescribes the terms of many of the transactions that the Authority has with other parties (e.g. council tax bills, housing benefits). Grants received from government departments are detailed in Note 9.

# NOTES TO THE ACCOUNTING STATEMENTS

## Members

Members of the council have direct control over the council's financial and operating policies. The total of members' allowances paid in 2021/22 is shown in Note 23. During 2021/22, no works or services were commissioned from companies in which Members had an interest. No grants were awarded to organisations in which Members were on the governing body. The relevant members did not take part in any discussion or decision relating to the grants. The Register of Members Interests are available for public inspection.

## Officers

2020-21 £	Organisation	Nature of control	2021-22 £
114,000	Havant & District Citizens Advice Bureaux	payment of a grant under a service level agreement	0
47,650	Community First	payment of a grant under a service level agreement and a contribution towards the cost of providing meals for the elderly	0
<u>161,650</u>	Total		<u>0</u>

There was no known material related party transaction with officers for 2020/21 or for 2021/22.

## Entities Controlled or Significantly influenced by the Authority

A Joint Management structure is established with East Hampshire District Council. Details of the transactions with East Hampshire District Council can be found in Note 24 Officers' remuneration

## NOTE 27. INTERESTS IN OTHER ENTITIES

The Council must consider all of 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 not been prepared.

### Nose South East

- NORSE SOUTH EAST LTD is a joint venture between Havant Borough Council and NORSE COMMERCIAL SERVICES LTD (Part of NORSE GROUP – wholly owned by NORFOLK COUNCIL)
- NORSE COMMERCIAL SERVICES LTD own 100% of the A shares – 8 shares of £1 each
- Havant Borough Council own 100% of the B shares – 2 shares of £1 each
- The Shareholders Agreement provides detail on how the directors and board shall operate, and how profit before tax is to be shared (50:50). Havant get their 50% share as a "discount/rebate". The profit after paying this discount back to Havant is subject to Corporation tax and profits net of tax belong totally to Norfolk Council.
- It is considered by all parties that it is a teckal company for both Havant and Norfolk.

# NOTES TO THE ACCOUNTING 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 £2,437,093 (£2,444,228 in 2020/21). During 2021/22 the Council received £180,000 from the Portchester Crematorium Joint Committee (£180,000 in 2020/21) being its share of the distributable surpluses.



# COLLECTION FUND STATEMENT AND NOTES

2020-21 £'000		2021-22 £'000
	<b><u>Council Tax</u></b>	
	<b>INCOME</b>	
(72,990)	Income from Council Taxpayers	(77,995)
(483)	s13A relief	0
(73,473)		(77,995)
	<b>EXPENDITURE</b>	
	Precepts and demands on Collection Fund	
53,068	Hampshire County Council	55,973
8,724	Hampshire Police & Crime Commissioner	9,386
2,849	Hampshire Fire & Rescue Authority	2,919
8,642	Havant Borough Council	8,890
	Apportionments of previous year surplus	
(467)	Hampshire County Council	693
(76)	Hampshire Police & Crime Commissioner	114
(26)	Hampshire Fire & Rescue Authority	37
(77)	Havant Borough Council	113
	Bad & Doubtful Debts	
148	Write offs of uncollectable income	138
48	Provision for uncollectable income-addition / (reduction)	204
72,833		78,467
(640)	Movement on Fund Balance - (surplus)/deficit	472
	<b>FUND BALANCE FOR COUNCIL TAX</b>	
(708)	Balance brought forward	(1,348)
(640)	Surplus for year	472
(1,348)	Balance - (surplus)/deficit carried forward	(876)

# COLLECTION FUND STATEMENT AND NOTES

2020-21 £'000		2021-22 £'000
	<b><u>Non-Domestic Rates</u></b>	
	<b>INCOME</b>	
<b>(15,304)</b>	Income from Ratepayers	<b>(27,023)</b>
	Transitional Relief	<b>(65)</b>
	Apportionments of previous year deficit	
<b>0</b>	Central Government	<b>(11,253)</b>
<b>0</b>	Hampshire County Council	<b>(2,026)</b>
<b>0</b>	Hampshire Fire & Rescue Authority	<b>(225)</b>
<b>0</b>	Havant Borough Council	<b>(9,003)</b>
<b>(15,304)</b>	<b>Total</b>	<b>(49,595)</b>
	<b>EXPENDITURE</b>	
	Precepts and demands on Collection Fund	
<b>17,781</b>	Central Government	<b>17,578</b>
<b>3,201</b>	Hampshire County Council	<b>3,164</b>
<b>356</b>	Hampshire Fire & Rescue Authority	<b>352</b>
<b>14,225</b>	Havant Borough Council	<b>14,062</b>
	Apportionments of previous year surplus	
<b>202</b>	Central Government	<b>0</b>
<b>36</b>	Hampshire County Council	<b>0</b>
<b>4</b>	Hampshire Fire & Rescue Authority	<b>0</b>
<b>162</b>	Havant Borough Council	<b>0</b>
<b>503</b>	Transitional Relief	<b>0</b>
	Bad & Doubtful Debts	
<b>0</b>	Write offs of uncollectable income	<b>0</b>
<b>294</b>	Provision for uncollectable income	<b>343</b>
	Impairments resulting from appeals	
<b>448</b>	Write offs of uncollectable income	<b>0</b>
<b>(1,322)</b>	Provision for uncollectable income	<b>(376)</b>
<b>132</b>	Transfer to General Fund - Cost of Collection Allowance	<b>133</b>
<b>36,022</b>		<b>35,256</b>
<b>20,718</b>	<b>Movement on Fund Balance - (surplus) / deficit</b>	<b>(14,339)</b>
	<b>FUND BALANCE FOR NON-DOMESTIC RATES</b>	
<b>3,076</b>	Balance brought forward	<b>23,794</b>
<b>20,718</b>	(Surplus) / deficit for year	<b>(14,339)</b>
<b>23,794</b>	<b>Balance - (surplus) / deficit carried forward</b>	<b>9,455</b>
	<b>COLLECTION FUND BALANCE</b>	
<b>2,368</b>	Balances brought forward	<b>22,446</b>
<b>20,078</b>	(Surplus) / deficit for year	<b>(13,867)</b>
<b>22,446</b>	<b>Balance - (surplus) carried forward</b>	<b>8,579</b>

# COLLECTION FUND STATEMENT AND NOTES

## NOTE 1. GENERAL

These accounts represent the transactions of the Collection Fund (accounting separately for income relating to council tax and non-domestic rates) which is a statutory fund separate from the main accounts of the Council, although the elements related to this Council are included within its accounting statements and notes. The account has been prepared on the accruals basis. The costs of administering collection are accounted for within Central Services in the Cost of Services in the Comprehensive Income and Expenditure Statement.

## NOTE 2. COUNCIL TAX

Council Tax derives from charges raised according to the value of residential properties, which have been classified into 9 valuation bands (A-H). Individual charges are calculated by estimating the amount of income required to be taken from the Collection Fund by the Council for the forthcoming year and dividing this by the Council Tax base (i.e. the equivalent numbers of Band D dwellings).

<b>Band &amp; Value</b>	<b>Number of Chargeable Dwellings Total</b>	<b>Relationship to Band D</b>	<b>Band D Equivalent £</b>
Band A - up to £40,000 (disabled)	0	5/9	3.97
Band A - up to £40,000	8,374	6/9	3061.77
Band B - over £40,000 up to £52,000	14,375	7/9	8414.87
Band C - over £52,000 up to £68,000	13,057	8/9	9758.16
Band D - over £68,000 up to £88,000	9,947	-	8854.58
Band E - over £88,000 up to £120,000	5,698	11/9	6400.78
Band F - over £120,000 up to £160,000	2,482	13/9	3370.51
Band G - over £160,000 up to £320,000	950	15/9	1477.10
Band H - over £320,000	41	18/9	51.79
	<b>54,924</b>		<b>41,393.32</b>
MOD adjustment			54.70
<b>Tax Base</b>			<b>41448.02</b>

The Council Tax Base, as shown in the final column above, assumes a collection rate of 99.5% of the numbers of properties adjusted for discounts.

## NOTE 3. INCOME FROM BUSINESS RATEPAYERS

Under the arrangements for business rates, the Council collects non-domestic rates for its area which are based on local rateable values multiplied by a uniform rate. The national multipliers for 2020/21 were:

- 49.9p for qualifying Small Businesses (49.9p in 2020/21)
- 51.2p for other businesses (51.2p in 2020/21) – the standard multiplier

The rateable value as at the 31st March 2022 was £X ( £85,112,818 as at 31 March 2021).

# GLOSSARY

## **ACCRUALS**

The concept that income and expenditure are recognised as they are earned or incurred, not as money is received or paid.

## **ACTUARIAL GAINS & LOSSES**

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

## **AMORTISATION**

The practice of reducing the value of intangible assets to reflect their reduced worth over time.

## **BUDGET**

The Council's policy expressed in financial terms for a specified period.

## **CAPITAL EXPENDITURE**

Expenditure on the provision and improvements of lasting assets such as land, buildings, vehicles and equipment. The Council may also incur capital expenditure on assets that it does not actually own (see Revenue Expenditure Financed from Capital under Statute, below).

## **CAPITAL RECEIPTS**

The proceeds from the sale of fixed assets.

## **CASH EQUIVALENTS**

Cash equivalents are investments that mature three months or less from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

## **CODE OF PRACTICE ON LOCAL AUTHORITY ACCOUNTING**

Standards issued by the accountancy bodies to prescribe approved accounting methods.

## **COMMUNITY ASSETS**

Assets that the Council intends to hold in perpetuity, that have no determinable useful life, and that have restrictions on their disposal. Examples include parks and open spaces.

## **CONTINGENCY**

A condition which exists at the Balance Sheet date and where the outcome will be confirmed only on the occurrence or non-occurrence of one or more uncertain future events.

## **CREDITORS**

Amounts owed by the Council but not paid at the date of the balance sheet.

## **DEBTORS**

Amounts owed to the Council but unpaid at the date of the balance sheet.

## **DEFINED BENEFIT SCHEME**

A pension scheme under which benefits are payable under regulations, in which the benefits are not directly related to the scheme investments. The scheme may be funded or unfunded.

## **DEPRECIATION**

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

# GLOSSARY

## **EARMARKED RESERVES**

Internal reserves set aside to finance future expenditure for purposes falling outside the definition of provisions.

## **EXCEPTIONAL ITEMS**

Material items which derive from events or transactions that fall within the ordinary activities of the Council and which need to be disclosed separately by virtue of their size or incidence to give fair presentation of the accounts.

## **FAIR VALUE**

The fair value of an asset is the price at which it could be exchanged in an arm's length transaction.

## **FINANCIAL INSTRUMENTS**

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another. In simple terms it covers both financial assets and financial liabilities such as trade debtors and trade creditors and derivatives and embedded derivatives.

## **GENERAL FUND**

The main revenue account of the Council which contains the revenue income and expenditure of all services provided.

## **GOVERNMENT GRANTS**

Central Government contributions towards local authority expenditure. Examples are Revenue Support grant and Housing Benefit Subsidy.

## **INFRASTRUCTURE ASSETS**

Long-Term Assets that are inalienable, expenditure on which is recoverable only by continued use of the asset created. An example is the sea wall and promenade.

## **INTANGIBLE ASSETS**

Identifiable non-monetary assets such as software licences.

## **INVESTMENT PROPERTIES**

Property held solely to earn rentals or for capital appreciation or both

## **LEASE**

An agreement whereby the lessor conveys to the lessee, in return for a payment or a number of payments, the right to use an asset (property, plant and equipment, investment properties, non-current assets available for sale or intangible assets) for an agreed period of time.

## **PAST SERVICE COST**

Discretionary pension benefits awarded on early retirement are treated as past service costs. This includes added years and unreduced pension benefits awarded before the rule of 85 age.

## **PRECEPT**

The amount of money the County Council, Sussex Police & Crime Commissioner and the Fire Authority have instructed the Council to collect and pay out of council tax receipts held in the Collection Fund. The Council also pays from its General Fund precepts issued by parish and town councils within the district.

## **PROPERTY, PLANT & EQUIPMENT (PPE)**

Tangible assets that yield up benefit to the Council over more than one accounting period, e.g. Land and Buildings.

## **PROVISIONS**

Sums set aside for any liabilities or losses which are likely to be incurred, but uncertain as to the dates on which they will arise.

# GLOSSARY

## **PUBLIC WORKS LOAN BOARD (PWLB)**

A Government financed body which provides a source of long term borrowing for local authorities.

## **REVENUE EXPENDITURE**

Day to day expenditure on the running of services. It includes staff costs, utility charges, rent and business rates, IT and communications and office expenses.

## **REVENUE EXPENDITURE FUNDED FROM CAPITAL UNDER STATUTE**

Legislation in England and Wales allows certain expenditure to be classified as capital for funding purposes when it does not result in the expenditure being carried on the Balance Sheet as a non-current asset, for example Disabled Facility Grants.

## **REVENUE SUPPORT GRANT**

A Government grant distributed to local authorities to augment income raised by the council tax. It is centrally determined on a needs basis.

## **SURPLUS ASSETS**

Items of Property Plant and Equipment that are no longer held for council purposes, but are not being actively marketed.

## **UNUSABLE RESERVES**

These are reserves, including those offsetting non-current assets and the negative reserve that offsets the long term pension liability, that are not immediately available to support revenue or capital expenditure.

## **USABLE RESERVES**

These reserves are available to support the Council's expenditure, although the Capital Receipts Reserve and the Capital Grants and Contributions Reserve may only be used for capital purposes.

---

NON-EXEMPT

## HAVANT BOROUGH COUNCIL

AUDIT AND FINANCE COMMITTEE

20 OCTOBER 2022

---

### REPORT OF MONITORING OFFICER – ANNUAL REVIEW LETTER OF LOCAL GOVERNMENT AND SOCIAL CARE OMBUDSMAN

#### FOR NOTING

Portfolio Holder: Cllr Tony Denton

Key Decision: No

Report Number: HBC/084/2022

---

#### 1. Purpose

The purpose of this paper is to report to Audit and Finance Committee the annual summary of complaint statistics provided by the Local Government & Social Care Ombudsman (LGSO) and the action taken in respect thereof. This data is provided in the form of their Annual Review Letter and this is attached to this report.

#### 2. Recommendation

Members are recommended to: -

- (i) Receive the Annual Review Letter 2022 from the Local Government & Social Care Ombudsman and accompanying complaints data; and
- (ii) Note that in the year 1 April 2021 to 31 March 2022 there were 21 complaints cases decided by the Ombudsman, two of which were upheld and fault found; and
- (iii) Note that the Council was fully compliant with the outcomes and remedies recommended by the Ombudsman in the two upheld complaints.

#### 3. Executive Summary

3.1. The Council maintains an effective internal complaints process where residents who are dissatisfied with a particular service can expect a full assessment of their complaint and, hopefully, a satisfactory resolution. Any resident who exhausts this process can choose to complain to the Local Government & Social Care Ombudsman. The Ombudsman provides a free service for complainants and aims to investigate complaints in a fair and independent way. Every year the Ombudsman provides each local authority with a summary of the complaints made against it and how its performance statistics compare with similar authorities. A theme of this year's letter to all authorities is the Ombudsman's cautionary note that the post-pandemic complaints processes of local authorities should be better resourced. Properly resourced complaints processes can provide valuable insight about an organisation's performance.

3.2. The headline figures for 2021-22 show that there were 19 complaints received by the Ombudsman alleging some fault by the Council. There were 21 decided cases during the same period (invariably there will be some overlap between years which is why complaints received and decided seldom coincide). The vast majority of complaints received by the Ombudsman do not proceed to investigation, either because they are without merit or because the Council has not been afforded the opportunity to address them (categorised by the Ombudsman as 'premature').

3.3. During 2021-22 the Ombudsman conducted 4 full investigations. Two of the four complaints were upheld which is the sector average. The 2 upheld cases are summarised below with a note of the action taken in compliance with recommended remedies.

#### **4. Complaints Upheld – case summaries**

4.1. Case No. 19017819



- a. A resident complained that the Council wrongly sent him a summons for council tax arrears which related to someone else with the same name, and then failed to respond to his complaint about this matter. The complainant alleged that he was caused unnecessary stress, being worried that bailiffs might call at his property and that his credit rating would be affected.
  
- b. The Council acknowledged its error in sending the complainant a council tax bill and summons which were intended for a person with the same name as him. The Council also accepted that it had used an incorrect email address when responding to the complaint which caused delay. However, the Ombudsman considered that the Council had taken appropriate steps to remedy what went wrong. The Council had corrected its billing and email address errors, apologised to the Complainant and offered him £100 in compensation. The Council has also committed to reviewing its processes for finding forwarding addresses of council taxpayers who had moved.

4.2. Case No. 20008921

- a. A resident complained the Council gave factually incorrect information about the requirements of the building regulations. The Complainant alleged that the incorrect information meant that unnecessary works were undertaken at her property, resulting in extra costs of over £9,000 and causing much distress for her and her husband. The complainant and her husband had received planning permission to build an extension to their home. A building control surveyor inspected the work during the course of foundations being laid. The surveyor told the complainant's husband (a builder) that the foundations should be 1.5 metres deep because if a neighbour removed a tree it could cause heave in the soil and damage the foundations. The surveyor said that Claymaster should be used in the foundations. In the course of the investigation the Council accepted that the evidence suggested that there was

probably no need for Claymaster but that there had been no analysis or investigation of the soil and the judgements were all subjective.

- b. The Ombudsman found that the surveyor was not merely giving the builder advice. He was issuing him with an instruction. He did not say that the builder was free to continue at his own risk. The Council's requirement that Claymaster should be installed, despite not knowing precise ground conditions or whether a neighbouring tree would be removed, amounted to fault. The Ombudsman did not find that the Council was liable for the extra work that needed to be carried out but it did need to be more careful, and clearer, about the steps applicants may take where precise ground conditions are unknown.
- c. The Council agreed to comply with the Ombudsman's recommendations by: -
- Apologising for the instruction to use Claymaster and not making options clear
  - Paying £300 compensation in recognition of the distress and uncertainty its fault caused
  - Reminding building control officers of the importance of providing clear advice and evidence-based instructions to applicants

## **5. Additional Budgetary Implications**

- 5.1. None directly from this report.

## **6. Background and relationship to Corporate Strategy, Climate & Environment Strategy and/or Business Plans**

- 6.1. The Corporate Strategy 2022-25 manages progress through the use of four dimensions or perspectives, the first of which is the customer and communities' perspective. The independent review of customer complaints provided by the Ombudsman contributes usefully to the "scorecard" by which the Council monitors customer experience of its services.

## **7. Options considered**

7.1. Not applicable.

## **8. Resource Implications**

8.1. Financial Implications

8.2. The complaints process and Ombudsman liaison are managed through existing budgeted resources.

### **Section 151 Officer comments**

Date: 11/10/22

There are no direct financial implications arising from this report. Complaints and Ombudsman liaison are managed through existing budgets.

8.3. Human Resources Implications

8.4. None directly from this report.

8.5. Information Governance Implications

8.6. None directly from this report.

8.7. Other resource implications

8.8. None directly from this report

## **9. Legal Implications**

9.1. The Local Government Act 1974 established the then Local Government Ombudsman for England and for Wales.

9.2. The Act defines the Ombudsman's main statutory functions:

- to investigate complaints against councils and some other authorities
- to investigate complaints about adult social care providers from people who arrange or fund their own adult social care

- to provide advice and guidance on good administrative practice

## **10. Risks**

- 10.1. The reputational damage that can be caused by adverse Ombudsman findings is

### **Monitoring Officer comments**

Date: 11/10/22

This report is made pursuant to the obligation placed on the Monitoring Officer to report to Councillors on any actual or potential breaches of the law or maladministration as required by section 5 Local Government Housing Act 1989 (Constitution Part 2 Section G3 paragraph 3.10). A specific function of the Audit and Finance Committee is to consider all findings of the Local Government and Social Care Ombudsman, including reports resulting in a finding of maladministration against the Council (Constitution Part 2 Section E3 paragraph 7.2)

mitigated by the careful management of an internal complaints process. The Council will always respond appropriately to independent assessment of complaints and the normal expectation is that Ombudsman recommendations will be fully implemented.

## **11. Climate & Environment Implications**

- 11.1. None directly from this report.

## **12. Consultation**

- 12.1. The Ombudsman findings have been shared internally and the Council's performance was uploaded to the Ombudsman's interactive map on 27 July 2022.

## **13. Communication**

- 13.1. None directly from this report.

## **14. Appendices**

- 14.1. Appendix 1 – Local Government & Social Care Ombudsman Annual Review Letter 2021-22 with performance statistics.

## **15. Background papers**

- 15.1. Case files containing exempt and personal information.

Agreed and signed off by:

Monitoring Officer: Mark Watkins      Date:      11/10/22

Section 151 Officer: Malcolm Coe      Date:      11/10/22

**Contact Officer**

Name: Mark Watkins

Job Title: Chief Legal Officer

Telephone: 02392 446218

E-mail: [mark.watkins@havant.gov.uk](mailto:mark.watkins@havant.gov.uk)

This page is intentionally left blank

20 July 2022

*By email*

Ms Sawyer  
Interim Chief Executive  
Havant Borough Council

Dear Ms Sawyer

### **Annual Review letter 2022**

I write to you with your annual summary of complaint statistics from the Local Government and Social Care Ombudsman for the year ending 31 March 2022. The information offers valuable insight about your organisation's approach to complaints. As such, I have sought to share this letter with the Leader of your Council and Chair of the appropriate Scrutiny Committee, to encourage effective ownership and oversight of complaint outcomes, which offer such valuable opportunities to learn and improve.

### **Complaint statistics**

Our statistics focus on three key areas that help to assess your organisation's commitment to putting things right when they go wrong:

**Complaints upheld** - We uphold complaints when we find fault in an organisation's actions, including where the organisation accepted fault before we investigated. We include the total number of investigations completed to provide important context for the statistic.

**Compliance with recommendations** - We recommend ways for organisations to put things right when faults have caused injustice and monitor their compliance with our recommendations. Failure to comply is rare and a compliance rate below 100% is a cause for concern.

**Satisfactory remedy provided by the authority** - In these cases, the organisation upheld the complaint and we agreed with how it offered to put things right. We encourage the early resolution of complaints and credit organisations that accept fault and find appropriate ways to put things right.

Finally, we compare the three key annual statistics for your organisation with similar authorities to provide an average marker of performance. We do this for County Councils, District Councils, Metropolitan Boroughs, Unitary Councils, and London Boroughs.

Your annual data, and a copy of this letter, will be uploaded to our interactive map, [Your council's performance](#), on 27 July 2022. This useful tool places all our data and information about councils in one place. You can find the detail of the decisions we have made about your Council, read the public reports we have issued, and view the service improvements your Council has agreed to make as a result of our investigations, as well as previous annual review letters.

### **Supporting complaint and service improvement**

I know your organisation, like ours, will have been through a period of adaptation as the restrictions imposed by the pandemic lifted. While some pre-pandemic practices returned, many new ways of working are here to stay. It is my continued view that complaint functions have been under-resourced in recent years, a trend only exacerbated by the challenges of the pandemic. Through the lens of this recent upheaval and adjustment, I urge you to consider how your organisation prioritises complaints, particularly in terms of capacity and visibility. Properly resourced complaint functions that are well-connected and valued by service areas, management teams and elected members are capable of providing valuable insight about an organisation's performance, detecting early warning signs of problems and offering opportunities to improve service delivery.

I want to support your organisation to harness the value of complaints and we continue to develop our programme of support. Significantly, we are working in partnership with the Housing Ombudsman Service to develop a joint complaint handling code. We are aiming to consolidate our approaches and therefore simplify guidance to enable organisations to provide an effective, quality response to each and every complaint. We will keep you informed as this work develops, and expect that, once launched, we will assess your compliance with the code during our investigations and report your performance via this letter.

An already established tool we have for supporting improvements in local complaint handling is our successful training programme. We adapted our courses during the Covid-19 pandemic to an online format and successfully delivered 122 online workshops during the year, reaching more than 1,600 people. To find out more visit [www.lgo.org.uk/training](http://www.lgo.org.uk/training).

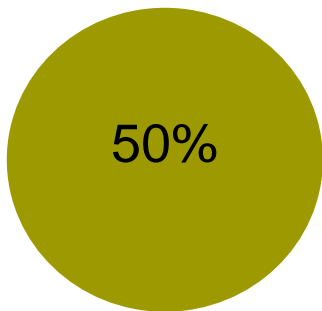
Yours sincerely,



Michael King  
Local Government and Social Care Ombudsman  
Chair, Commission for Local Administration in England



### Complaints upheld



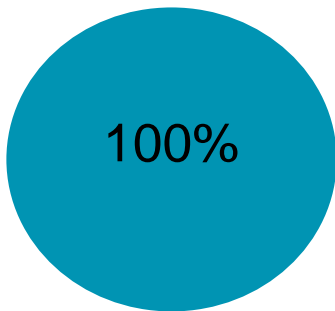
**50%** of complaints we investigated were upheld.

This compares to an average of **51%** in similar organisations.

**2**  
upheld decisions

Statistics are based on a total of **4** investigations for the period between 1 April 2021 to 31 March 2022

### Compliance with Ombudsman recommendations



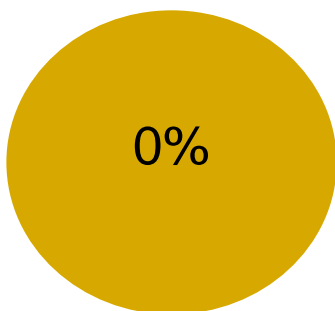
In **100%** of cases we were satisfied the organisation had successfully implemented our recommendations.

This compares to an average of **100%** in similar organisations.

Statistics are based on a total of **2** compliance outcomes for the period between 1 April 2021 to 31 March 2022

- Failure to comply with our recommendations is rare. An organisation with a compliance rate below 100% should scrutinise those complaints where it failed to comply and identify any learning.

### Satisfactory remedy provided by the organisation



In **0%** of upheld cases we found the organisation had provided a satisfactory remedy before the complaint reached the Ombudsman.

This compares to an average of **20%** in similar organisations.

**0**  
satisfactory remedy decisions

Statistics are based on a total of **2** upheld decisions for the period between 1 April 2021 to 31 March 2022

This page is intentionally left blank

Reference	Authority	Category	Received
21000596	Havant Borough Council	Planning & Development	06/07/21
21000926	Havant Borough Council	Planning & Development	21/04/21
21003015	Havant Borough Council	Benefits & Tax	01/06/21
21003608	Havant Borough Council	Planning & Development	11/06/21
21003611	Havant Borough Council	Housing	11/06/21
21004215	Havant Borough Council	Benefits & Tax	23/06/21
21005279	Havant Borough Council	Environmental Services & Public Protection & Regulation	13/07/21
21005512	Havant Borough Council	Planning & Development	21/07/21
21005615	Havant Borough Council	Planning & Development	30/11/21
21006723	Havant Borough Council	Environmental Services & Public Protection & Regulation	05/08/21
21007385	Havant Borough Council	Environmental Services & Public Protection & Regulation	17/08/21
21007780	Havant Borough Council	Environmental Services & Public Protection & Regulation	27/08/21
21011044	Havant Borough Council	Housing	26/10/21
21015088	Havant Borough Council	Benefits & Tax	14/01/22
21015335	Havant Borough Council	Benefits & Tax	20/01/22
21015650	Havant Borough Council	Corporate & Other Services	25/01/22
21017258	Havant Borough Council	Environmental Services & Public Protection & Regulation	22/02/22
21018555	Havant Borough Council	Environmental Services & Public Protection & Regulation	19/03/22
21018941	Havant Borough Council	Environmental Services & Public Protection & Regulation	29/03/22

This page is intentionally left blank

Reference	Authority	Category	Decided	Decision	Decison Reason	Remedy	Service improvement
19017819	Havant Borough Council	Benefits & Tax	19/04/21	Upheld	Injustice remedied during LGO consideration	Improved BinJ remedy	
20005923	Havant Borough Council	Highways & Transport	01/04/21	Not Upheld	Other reason not to continue with investigation		
20008921	Havant Borough Council	Planning & Development	24/09/21	Upheld	mal & inj	Apology,Financial redress: Avoidable distress/time and trouble,Provide training and/or guidance	The Council agreed to remind building control officers of the importance of providing clear advice and instructions.
20014493	Havant Borough Council	Planning & Development	21/05/21	Closed after initial enquiries	Not warranted by alleged mal/service failure		
21000596	Havant Borough Council	Planning & Development	01/03/22	Not Upheld	No worthwhile outcome achievable by further investigation		
21000926	Havant Borough Council	Planning & Development	21/04/21	Referred back for local resolution	Premature Decision - advice given		
21003015	Havant Borough Council	Benefits & Tax	27/07/21	Closed after initial enquiries	No worthwhile outcome achievable by investigation		
21003608	Havant Borough Council	Planning & Development	17/08/21	Closed after initial enquiries	26(6)(b) appeal to Minister		
21003611	Havant Borough Council	Housing	11/06/21	Referred back for local resolution	Premature Decision - advice given		
21004215	Havant Borough Council	Benefits & Tax	12/08/21	Referred back for local resolution	Premature Decision - referred to BinJ		
21005279	Havant Borough Council	Environmental Services & Public Protection & Regulation	09/09/21	Closed after initial enquiries	Not warranted by alleged mal/service failure		
21005512	Havant Borough Council	Planning & Development	21/07/21	Referred back for local resolution	Premature Decision - advice given		
21005615	Havant Borough Council	Planning & Development	07/01/22	Closed after initial enquiries	Other reason not to investigate		
21006723	Havant Borough Council	Environmental Services & Public Protection & Regulation	11/10/21	Closed after initial enquiries	Not warranted by alleged mal/service failure		
21007385	Havant Borough Council	Environmental Services & Public Protection & Regulation	08/10/21	Closed after initial enquiries	26B(2) not made in 12 months		
21011044	Havant Borough Council	Housing	06/01/22	Closed after initial enquiries	At request of complainant		
21015088	Havant Borough Council	Benefits & Tax	14/01/22	Referred back for local resolution	Premature Decision - advice given		
21015335	Havant Borough Council	Benefits & Tax	20/01/22	Referred back for local resolution	Premature Decision - advice given		
21015650	Havant Borough Council	Corporate & Other Services	16/03/22	Closed after initial enquiries	Not warranted by alleged mal/service failure		
21017258	Havant Borough Council	Environmental Services & Public Protection & Regulation	22/02/22	Referred back for local resolution	Premature Decision - advice given		
21018555	Havant Borough Council	Environmental Services & Public Protection & Regulation	21/03/22	Referred back for local resolution	Premature Decision - advice given		

This page is intentionally left blank

Reference	Authority	Category	Decided	Remedy	Remedy Target Date	Remedy Achieved Date	Satisfaction with Compliance
19014811	Havant Borough Council	Environmental Services & Public Protection & Regulation	27-Nov-20	Financial redress: Avoidable distress/time and trouble Provide services Procedure or policy change/review	04-Jan-21	19-Jul-21	Remedy completed late
20008921	Havant Borough Council	Planning & Development	23-Sep-21	Apology Financial redress: Avoidable distress/time and trouble Provide training and/or guidance	22-Oct-21	16-Nov-21	Remedy completed late

This page is intentionally left blank



**NON EXEMPT**

## **HAVANT BOROUGH COUNCIL**

---

**Audit and Finance Committee**

**Treasury Management Update**

**Chief Finance Officer**

**FOR DECISION**

**Portfolio: Portfolio Holder for Finance: Cllr Denton**

**Key Decision: No**

**Report Number: HBC/087/2022**

---

### **1.0 Purpose of Report**

- 1.1. To present the Treasury Outturn for 2021/22
- 1.2. To present the Mid-Year Treasury Review for 2022/23
- 1.3. To approve an update to the 2022/23 Treasury Management Strategy
- 1.4. To provide the financial context from our external advisor's perspective.

### **2.0 Recommendation**

- 2.1. That the Committee note appendices A,B and D.
- 2.2. Members are requested to approve the amendments to the Council's Treasury Management Strategy for 2022/23 as detailed in Appendix C.

### **3.0 Executive Summary**

- 3.1. The council is required to receive and approve as a minimum, three main reports each year, which incorporate a variety of, policies, estimates and actuals including:
  - Prudential and treasury indicators and Treasury Strategy
  - Mid-year treasury management report – This will update members with the progress of the capital position, amending prudential indicators as necessary, and whether any policies require revision.
  - An annual treasury report – This provides details of a selection of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the strategy.
- 3.2. The above reports are required to be adequately scrutinised before being recommended to the Council. This role is undertaken by the Audit and Finance Committee.

## **4.0 Resource Implications**

4.1 Financial Implications – the Treasury Management function is undertaken by the finance service. Adequate capacity has been built into the structure and relevant base budget established to effectively maintain strong Treasury Management moving forwards.

## **5.0 Legal Implications**

5.1. Changes to the Treasury Management Strategy must be approved by Full Council following relevant recommendation from the Audit Committee.

## **6.0 Appendices:**

Appendix A: Annual Treasury Management Outturn 2021/22  
Appendix B Mid-Year Treasury Management review 2022/23  
Appendix C update to the 2022/23 Treasury Management Strategy  
Appendix D Financial Context – October 2022

Agreed and signed off by:

**Contact Officer:** Malcolm Coe  
**Job Title:** Chief Finance (Section 151) Officer  
**Telephone:** 07905 164040  
**E-Mail:** Malcolm.coe@havant.gov.uk

# Appendix A - Annual Treasury Management Outturn 2021/22

---

## 1. Introduction

This Council is required by regulations issued under the Local Government Act 2003 to produce an annual treasury management review of activities along with the actual prudential and treasury indicators. This report meets the requirements of both the CIPFA Code of Practice on Treasury Management, (the Code), and the CIPFA Prudential Code for Capital Finance in Local Authorities, (the Prudential Code).

The Treasury management strategy report for 2021/22 was approved by Council in February 2021. The Treasury reporting requirements for 2021/2022 are:

- an annual treasury strategy in advance of the year and a mid-year (minimum) treasury update report
- an annual review following the end of the year describing the activity compared to the strategy (this report)

The regulatory environment places responsibility on members for the review and scrutiny of treasury management policy and activities. This report is, therefore, important in that respect, as it provides details of the outturn position for treasury activities and highlights compliance with the Council's policies previously approved by members.

This Council confirms that it has complied with the requirement under the Code to give prior scrutiny to all of the above treasury management reports by the Havant Borough Council Audit Committee before they were reported to the full Council.

## 2. The Council's Capital Expenditure and Financing

The underlying need to borrow is measured by the Council's Capital Financing Requirement (CFR). The CFR is anticipated to remain consistent over the period of the Medium Term Financial Strategy (MTFS).

The Council undertakes capital expenditure on long-term assets. These activities may either be:

- Financed immediately through the application of capital or revenue resources (capital receipts, capital grants, revenue contributions etc.), which has no resultant impact on the Council's borrowing need; or
- If insufficient financing is available, or a decision is taken not to apply resources, the capital expenditure will give rise to a borrowing need.

The actual capital expenditure forms one of the required prudential indicators. The table below shows the actual capital expenditure and how this was financed.

	2020/21 Actual	2021/22 Budget £'000	2021/22 Actual £'000
<b>Capital expenditure</b>	£ 2,157	£ 4,652	£ 2,947
Financed in year	£ 2,157	£ 4,652	£ 2,947
<b>Unfinanced capital expenditure</b>			

### 3. The Council's Overall Borrowing Need

There is external borrowing in place of £3.152M relating to the acquisition of the Meridian Centre for which internal borrowing was also used.

The Council's underlying need to borrow to finance capital expenditure is termed the Capital Financing Requirement (CFR).

**Gross borrowing and the CFR** - in order to ensure that borrowing levels are prudent over the medium term and only for a capital purpose, the Council should ensure that its gross external borrowing does not, except in the short term, exceed the total of the capital financing requirement in the preceding year (2020/21) plus the estimates of any additional capital financing requirement for the current (2021/22) and next two financial years. This essentially means that the Council is not borrowing to support revenue expenditure. This indicator allows the Council some flexibility to borrow in advance of its immediate capital needs in 2021/22. The table below highlights the Council's gross borrowing position against the CFR. The Council has complied with this prudential indicator.

	31-Mar-21 Actual £'000	31-Mar-22 Budget £'000	31-Mar-22 Actual £'000
CFR General Fund	£ 13,369	£ 13,082	£ 13,120
Gross borrowing position	£ 3,258	£ 8,652	£ 3,152
Under / over funding of CFR	-£ 10,111	-£ 4,430	-£ 9,968

**The authorised limit** - the authorised limit is the "affordable borrowing limit" required by s3 of the Local Government Act 2003. Once this has been set, the Council does not have the power to borrow above this level. The table below demonstrates that during 2021/22 the Council has maintained gross borrowing within its authorised limit.

**The operational boundary** – the operational boundary is the expected borrowing position of the Council during the year. Periods where the actual position is either below or over the boundary are acceptable subject to the authorised limit not being breached.

**Actual financing costs as a proportion of net revenue stream** - this indicator identifies the trend in the cost of capital, (borrowing and other long term obligation costs net of investment income), against the net revenue stream.

	2021/22 £'000
Authorised limit	145,000
Maximum gross borrowing position during the year	6,258
Operational boundary	113,000
Average gross borrowing position	3,155
Financing costs as a proportion of net revenue stream	0.88%

## 4. Treasury Position as at 31 March 2022

At the beginning and the end of 2021/22 the Council's treasury position was as follows:

There were no new investments made in the year financial year 2021/22. Surplus balances were held in the Council's bank account.

The maturity structure of the debt portfolio was as follows:

	2021/22 Budget £'000	31/03/2022 Actual £'000
Under 12 months	£ 105	£ 105
12 months to 2 years	£ 109	£ 109
2 years to 5 years	£ 355	£ 355
5 years to 10 years	£ 696	£ 696
10 years to 20 years	£ 1,887	£ 1,887

## 5. Borrowing Outturn

### Treasury Borrowing –

DEBT PORTFOLIO	31 March 2021 Principal £'000	Rate/ Return	Average Life yrs	31 March 2022 Principal £'000	Rate/ Return	Average Life yrs
Fixed rate funding:						
-PWL						
PWL £4m 16/03/12 30yrs 4.04%	£ 3,253	4.04%	30 years	£ 3,152	4.04%	30yrs
<b>Total debt</b>	£ 3,253			£ 3,152		
<b>CFR</b>	£ 13,369			£ 13,369		
<b>Over / (under) borrowing</b>	-£ 10,111			-£ 10,217		
<b>Total investments</b>	£ 45,214			£ 54,489		
<b>Net debt</b>	£ 41,961			£ 51,337		

### Borrowing in advance of need

The Council has not borrowed more than, or in advance of its needs, purely in order to profit from the investment of the extra sums borrowed.

### Rescheduling

No rescheduling was done during the year as the average 1% differential between PWLB new borrowing rates and premature repayment rates made rescheduling unviable.

## 6. Investment Outturn

**Investment Policy** – the Council’s investment policy is governed by MHCLG investment guidance, which has been implemented in the TMS that is approved by the Council at the start of the financial year. This policy sets out the approach for choosing investment counterparties, and is based on credit ratings provided by the three main credit rating agencies, supplemented by additional market data, (such as rating outlooks, credit default swaps, bank share prices etc).

There was no investment activity during the year and the Council had no liquidity difficulties.

**Resources** – the Council’s cash balances comprise revenue and capital resources and cash flow monies. The Council’s core cash resources comprised as follows:

Balance Sheet Resources	31/03/2021 £'000	31/03/2022 £'000
Balances		
General Fund	£ 3,509	£ 3,355
Earmarked reserves	£ 19,797	£ 13,425
Unapplied capital grant	£ 15,876	£ 20,531
Usable capital receipts	£ 10,321	£ 10,321
<b>Total</b>	<b>£ 49,504</b>	<b>£ 47,632</b>

The internally managed funds earned interest of £35,000 within the 2021/22 financial year

## 7. Non-Treasury Investments

The definition of investments in CIPFA’s revised 2021 Treasury Management Code covers all the financial assets of the Authority as well as other non-financial assets which the Authority holds primarily for financial return. Investments that do not meet the definition of treasury management investments (i.e. management of surplus cash) are categorised as either for service purposes (made explicitly to further service objectives) and or for commercial purposes (made primarily for financial return).

Investment Guidance issued by the Department for Levelling Up Housing and Communities (DLUHC) and Welsh Government also includes within the definition of investments all such assets held partially or wholly for financial return.

The Authority held £28m of such investments in directly owned investment property.

These investments generated £1.263m of investment income for the Authority after taking account of direct costs, representing a rate of return of 4%.

# Appendix B – Mid-Year Treasury Management Review 2022/23

---

## 1. Introduction

This Council is required by regulations issued under the Local Government Act 2003 to produce an annual treasury management review of activities and the actual prudential and treasury indicators for 2022/23. This report meets the requirements of both the CIPFA Code of Practice on Treasury Management, (the Code), and the CIPFA Prudential Code for Capital Finance in Local Authorities, (the Prudential Code).

The 2022/23 Treasury Management Strategy report was approved by the Council in February 2022. Treasury reporting requirements for 2022/2023 are:

- an annual treasury strategy in advance of the year and a mid-year treasury update report;
- an annual review following the end of the year describing the activity compared to the strategy

The regulatory environment places responsibility on members for the review and scrutiny of treasury management policy and activities. This report is, therefore, important in that respect, as it provides an update for treasury activities and highlights compliance with the Council's policies previously approved by members.

This Council confirms that it has complied with the requirement under the Code to give prior scrutiny to all of the above treasury management reports by the Havant Borough Council Audit Committee before they were reported to the full Council.

## 2. The Council's Capital Expenditure and Financing

The underlying need to borrow is measured by the Council's Capital Financing Requirement (CFR). The CFR is anticipated to remain consistent over the period of the Medium Term Financial Strategy (MTFS).

The Council undertakes capital expenditure on long-term assets. These activities may either be:

- Financed immediately through the application of capital or revenue resources (capital receipts, capital grants, revenue contributions etc.), which has no resultant impact on the Council's borrowing need; or
- If insufficient financing is available, or a decision is taken not to apply resources, the capital expenditure will give rise to a borrowing need.

The actual capital expenditure forms one of the required prudential indicators. The table below shows the actual capital expenditure and how this was financed.

	2021/22 Actual	2022/23 Budget £'000	2022/23 Estimated Outturn £'000
<b>Capital expenditure</b>	£ 2,947	£ 3,657	£ 3,657
Financed in year	£ 2,947	£ 3,657	£ 3,657
<b>Unfinanced capital expenditure</b>			

### 3. The Council's Overall Borrowing Need

There is external borrowing in place of £3.047M which relates to the acquisition of the Meridian Centre which has also been funded through internal borrowing.

The Council's underlying need to borrow to finance capital expenditure is termed the Capital Financing Requirement (CFR).

**Gross borrowing and the CFR** - in order to ensure that borrowing levels are prudent over the medium term and only for a capital purpose, the Council should ensure that its gross external borrowing does not, except in the short term, exceed the total of the capital financing requirement in the preceding year (2021/22) plus the estimates of any additional capital financing requirement for the current (2022/23) and next two financial years. This essentially means that the Council is not borrowing to support revenue expenditure. This indicator could allowed the Council some flexibility to borrow in advance of its immediate capital needs in 2022/23. The table below highlights the Council's gross borrowing position against the CFR. The Council has complied with this prudential indicator.

	31-Mar-22 Actual £'000	31-Mar-23 Budget £'000	31-Mar-23 Estimated Outturn £'000
CFR General Fund	£ 13,120	£ 12,894	£ 12,894
Gross borrowing position	£ 3,152	£ 3,047	£ 3,047
Under / over funding of CFR	-£ 10,448	-£ 9,847	-£ 9,847

**The authorised limit** - the authorised limit is the "affordable borrowing limit" required by s3 of the Local Government Act 2003. Once this has been set, the Council does not have the power to borrow above this level. The table below demonstrates that during 2022/23 the Council has maintained gross borrowing within its authorised limit.

**The operational boundary** – the operational boundary is the expected borrowing position of the Council during the year. Periods where the actual position is either below or over the boundary are acceptable subject to the authorised limit not being breached.

**Actual financing costs as a proportion of net revenue stream** - this indicator identifies the trend in the cost of capital, (borrowing and other long term obligation costs net of investment income), against the net revenue stream.



	2022/23 £'000
Authorised limit	£ 145,000
Maximum gross borrowing position during the year	£ 3,152
Operational boundary	£ 143,000
Average gross borrowing position	£ 3,100
Financing costs as a proportion of net revenue stream	0.10%

## 4. Borrowing Position as at 31 March 2023

The maturity structure of the debt portfolio is as follows:

	2021/22 Actual £'000	2022/23 Estimated £'000
Under 12 months	£ 105	£ 109
12 months to 2 years	£ 109	£ 114
2 years to 5 years	£ 355	£ 370
5 years to 10 years	£ 696	£ 724
10 years to 20 years	£ 1,887	£ 1,730

The Council took out a £4m, 30 year, Public Works Loan Board loan in 2012 with an estimated remaining principal of £3.047m by March 2023

DEBT PORTFOLIO	31 March 2022 Principal £'000	Rate/ Return	Average Life yrs	31 March 2023 Principal £'000	Rate/ Return	Rate/ Return	Average Life yrs
Fixed rate funding:							
-PWLB							
PWLB £4m 16/03/12 30yrs 4.04%	£ 3,152	4.04%	30 years	£ 3,047	4.04%		30yrs
<b>Total debt</b>	<b>£ 3,152</b>			<b>£ 3,047</b>			
<b>CFR</b>	<b>£ 13,120</b>			<b>£ 12,894</b>			
<b>Over / (under) borrowing</b>	<b>-£ 10,448</b>			<b>-£ 9,847</b>			
<b>Total investments</b>	<b>£ 54,489</b>			<b>£ 56,543</b>			
<b>Net debt</b>	<b>£ 51,337</b>			<b>£ 53,496</b>			

### Borrowing in advance of need

The Council has not borrowed more than, or in advance of its needs, purely in order to profit from the investment of the extra sums borrowed.

### Rescheduling

No rescheduling was done during the year as the average 1% differential between PWLB new borrowing rates and premature repayment rates made rescheduling unviable.

## 5. Investment Outturn

**Investment Policy** – the Council’s investment policy is governed by MHCLG investment guidance, which has been implemented in the TMS that is approved by the Council at the start of the financial year. This policy sets out the approach for choosing investment counterparties, and is based on credit ratings provided by the three main credit rating agencies, supplemented by additional market data, (such as rating outlooks, credit default swaps, bank share prices etc).

**Resources** – the Council’s cash balances comprise revenue and capital resources and cash flow monies. The Council’s core cash resources comprised as follows:

Balance Sheet Resources	31/03/2022 £'000	
Balances		
General Fund	£	3,355
Earmarked reserves	£	13,425
Unapplied capital grant	£	20,531
Usable capital receipts	£	10,321
<b>Total</b>	<b>£</b>	<b>47,632</b>

Cash balances are currently elevated over and above the resources in the above table due to grants received for various government support programmes which will need to be re-paid.

Up to March 2022, the Council maintained a passive approach on Treasury investments, earning an annual return of just £35k from cash balances which were in excess of £40m throughout the 2021/22 financial year. However, a more proactive approach has been adopted during 2022/23 which has resulted in:

- revision of the Council’s 2022/23 Treasury Management Strategy approved in April 2022;
- appointment of ArlingClose as the Council’s new Treasury Management advisors in July 22;
- a targeted intention to create a £10m, longer term investment portfolio;
- a targeted approach to invest, (securely), cashflow on a rolling 12-month basis to increase revenue returns;
- a further revision of the Council’s Treasury Management Strategy presented to this Committee as recommended through ArlingClose

This change in approach, enacted through the delegation to the Council’s Section 151 Officer, in compliance with the approved Treasury Management Strategy, will deliver revenue income in excess of £450k in the 2022/23 financial year with the potential to deliver far greater financial returns in 2023/24

## Investments held by the Council as at October 2022

INVESTMENT PORTFOLIO	Actual 31.3.22 £'000	Actual 31.3.21 %	As at 10.10.2022 £'000	Actual 31.3.22 %	Limit	Interest rate	Term	Interest Estimated 2022/23 £'000 %
<b>Treasury investments</b>								
Council's banker	£ 49,460	91%	£ 35,511	63%	unlimited			£ 0.63
Building Societies - rated	£ 5,029	9%	£ 5,032	9%	£10m	1.90%	9 months	£ 54.92
Standard Chartered Bank			£ 3,000	5%	£5M	1.97%	6 month	£ 29.55
Goldman Sachs International			£ 5,000	9%	£5M	2.13%	6 month	£ 53.25
Lloyds Bank Corporate Markets			£ 2,000	4%	£5M	1.83%	6 month	£ 18.30
Local authorities								
DMADF (H M Treasury)								
<b>Total managed in house</b>	£ 54,489		£ 50,543					£ 156.65
Fundamentum REIT (Social Housing)			£ 500	1%		2.5%	Long	£ 6.25
Aegon (Multi Asset)			£ 2,000	4%		4.5%	Long	£ 45.00
Ninety One (Multi Asset)			£ 2,000	4%		4.5%	Long	£ 45.00
Foresight (Infrastructure)			£ 1,500	3%		4.0%	Long	£ 30.00
<b>Total managed externally</b>	£ -		£ 6,000					£ 126.25
<b>TOTAL TREASURY INVESTMENTS</b>	£ 54,489		£ 56,543	100%			<b>Total Interest</b>	£ 282.90

A further £184.74K of interest is receivable in 2022/23 from forward investments with three separate local authorities at interest rates of between 4.5% and 4.65%. These investments, each being £5m, take effect from November '22, December '22 and January '23 – each running for a 12 month duration.

## 6. Non Treasury Investments

The definition of investments in CIPFA's revised 2021 Treasury Management Code covers all the financial assets of the Authority as well as other non-financial assets which the Authority holds primarily for financial return. Investments that do not meet the definition of treasury management investments (i.e. management of surplus cash) are categorised as either for service purposes (made explicitly to further service objectives) and or for commercial purposes (made primarily for financial return).

Investment Guidance issued by the Department for Levelling Up Housing and Communities (DLUHC) and Welsh Government also includes within the definition of investments all such assets held partially or wholly for financial return.

The Authority held £28m of such investments in directly owned investment property.

This page is intentionally left blank

# Appendix C –Treasury Management Strategy - Update 2022/23

---

## 1. Introduction

This Council is required by regulations issued under the Local Government Act 2003 to produce an annual treasury management review of activities to include prudential and treasury indicators for 2022/23. This report meets the requirements of both the CIPFA Code of Practice on Treasury Management, (the Code), and the CIPFA Prudential Code for Capital Finance in Local Authorities, (the Prudential Code).

The 2022/23 Treasury Management Strategy was approved by the Council in February 2022. The Council has subsequently changed its Treasury advisors and this report contains details of the changes to the Strategy which will need to be approved by Full Council. The Authority's treasury management advisers are Arlingclose.

## 2. Investment Strategy

The Authority now holds invested funds, representing income received in advance of expenditure plus balances and reserves held.

**Objectives:** The CIPFA Code requires the Authority to invest its treasury funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The Authority's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income. Where balances are expected to be invested for more than one year, the Authority will aim to achieve a total return that is equal or higher than the prevailing rate of inflation, in order to maintain the spending power of the sum invested.

**Strategy:** Given the increasing risk and very low returns from short-term unsecured bank investments in 2021/22, the Authority decided to diversify into more secure and/or higher yielding asset classes during 2022/23. At the time of writing this report £6m has been made available for longer-term investment. The rest of the Authority's surplus cash is being invested in short-term unsecured bank deposit and loans to local authorities. This diversification represents a substantial change in strategy over the coming year.

**Business models:** Under the new IFRS 9 standard, the accounting for certain investments depends on the Authority's "business model" for managing them. The Authority aims to achieve value from its treasury investments by a business model of collecting the contractual cash flows and therefore, where other criteria are also met, these investments will continue to be accounted for at amortised cost.

**Approved counterparties:** The Authority may invest its surplus funds with any of the counterparty types in table below, subject to the limits shown

Sector	Time limit	Counterparty limit	Sector limit
The UK Government	50 years	Unlimited	n/a
Local authorities & other government entities	25 years	£13m	Unlimited
Banks (unsecured) *	13 months	£5m	Unlimited
Building societies (unsecured) *	13 months	£5m	£10m
Registered providers (unsecured) *	5 years	£5m	£25m
Money market funds *	n/a	£25m	Unlimited
Strategic pooled funds	n/a	£5m	£15m
Real estate investment trusts	n/a	£5m	£15m

\* **Minimum credit rating:** Treasury investments in the sectors marked with an asterisk will only be made with entities whose lowest published long-term **credit rating is no lower than A-**. Where available, the credit rating relevant to the specific investment or class of investment is used, otherwise the counterparty credit rating is used. However, investment decisions are never made solely based on credit ratings, and all other relevant factors including external advice will be taken into account.

For entities without published credit ratings, investments may be made where external advice indicates the entity to be of similar credit quality.

**Government:** Loans to, and bonds and bills issued or guaranteed by, national governments, regional and local authorities and multilateral development banks. These investments are not subject to bail-in, and there is generally a lower risk of insolvency, although they are not zero risk. Investments with the UK Government are deemed to be zero credit risk due to its ability to create additional currency and therefore may be made in unlimited amounts for up to 50 years.

**Registered providers (unsecured):** Loans to, and bonds issued or guaranteed by, registered providers of social housing or registered social landlords, formerly known as housing associations. These bodies are regulated by the Regulator of Social Housing (in England), the Scottish Housing Regulator, the Welsh Government and the Department for Communities (in Northern Ireland). As providers of public services, they retain the likelihood of receiving government support if needed.

**Money market funds:** Pooled funds that offer same-day or short notice liquidity and very low or no price volatility by investing in short-term money markets. They have the advantage over bank accounts of providing wide diversification of investment risks, coupled with the services of a professional fund manager in return for a small fee. Although no sector limit applies to money market funds, the Authority will take care to diversify its liquid investments over a variety of providers to ensure access to cash at all times.

**Strategic pooled funds:** Bond, equity and property funds that offer enhanced returns over the longer term but are more volatile in the short term. These allow the Authority to diversify into asset classes other than cash without the need to own and manage the underlying investments. Because these funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued suitability in meeting the Authority's investment objectives will be monitored regularly.

**Real estate investment trusts:** Shares in companies that invest mainly in real estate and pay the majority of their rental income to investors in a similar manner to pooled property funds. As with property funds, REITs offer enhanced returns over the longer term, but are more volatile especially as the share price reflects changing demand for the shares as well as changes in the value of the underlying properties.

**Operational bank accounts:** The Authority may incur operational exposures, for example through current accounts, collection accounts and merchant acquiring services, to any UK bank with **credit ratings no lower than BBB-** and with assets greater than £25 billion. These are not classed as investments but are still subject to the risk of a bank bail-in. The Bank of England has stated that in the event of failure, banks with assets greater than £25 billion are more likely to be bailed-in than made insolvent, increasing the chance of the Authority maintaining operational continuity. We do not have a limit on the amount in its operational bank account.

**Risk assessment and credit ratings:** Credit ratings are obtained and monitored by the Authority's treasury advisers, who will notify changes in ratings as they occur. The credit rating agencies in current use are listed in the Treasury Management Practices document. Where an entity has its credit rating downgraded so that it fails to meet the approved investment criteria then:

- no new investments will be made,
- any existing investments that can be recalled or sold at no cost will be, and
- full consideration will be given to the recall or sale of all other existing investments with the affected counterparty.

Where a credit rating agency announces that a credit rating is on review for possible downgrade (also known as "negative watch") so that it may fall below the approved rating criteria, then only investments that can be withdrawn will be made with that organisation until the outcome of the review is announced. This policy will not apply to negative outlooks, which indicate a long-term direction of travel rather than an imminent change of rating.

**Other information on the security of investments:** The Authority understands that credit ratings are good, but not perfect, predictors of investment default. Full regard will therefore be given to other available information on the credit quality of the organisations in which it invests, including credit default swap prices, financial statements, information on potential government support, reports in the quality financial press and analysis and advice from the Authority's treasury management adviser. No investments will be made with an organisation if there are substantive doubts about its credit quality, even though it may otherwise meet the above criteria.

When deteriorating financial market conditions affect the creditworthiness of all organisations, as happened in 2008 and 2020, this is not generally reflected in credit ratings, but can be seen in other market measures. In these circumstances, the Authority will restrict its investments to those organisations of higher credit quality and reduce the maximum duration of its investments to maintain the required level of security. The extent of these

restrictions will be in line with prevailing financial market conditions. If these restrictions mean that insufficient commercial organisations of high credit quality are available to invest the Authority's cash balances, then the surplus will be deposited with the UK Government, or with other local authorities. This will cause investment returns to fall but will protect the principal sum invested.

Credit risk exposures arising from non-treasury investments, financial derivatives and balances in operational bank accounts count against the relevant investment limits.

**Liquidity management:** The Authority uses in-house cash flow forecasting software to determine the maximum period for which funds may prudently be committed. The forecast is compiled on a prudent basis to minimise the risk of the Authority being forced to borrow on unfavourable terms to meet its financial commitments. Limits on long-term investments are set by reference to the Authority's medium-term financial plan and cash flow forecast.

The Authority will spread its liquid cash over a number of providers (e.g. bank accounts and money market funds) to ensure that access to cash is maintained in the event of operational difficulties at any one provider.



# Appendix D – Financial Context

---

## 1. External Context 2021/22

Economic background: The continuing economic recovery from coronavirus pandemic, together with the war in Ukraine, higher inflation, and higher interest rates were major issues over the period.

Bank Rate was 0.1% at the beginning of the reporting period. April and May saw the economy gathering momentum as the shackles of the pandemic restrictions were eased. Despite the improving outlook, market expectations were that the Bank of England would delay rate rises until 2022. Rising, persistent inflation changed that.

UK CPI was 0.7% in March 2021 but thereafter began to steadily increase. Initially driven by energy price effects and by inflation in sectors such as retail and hospitality which were re-opening after the pandemic lockdowns, inflation then was believed to be temporary. Thereafter price rises slowly became more widespread, as a combination of rising global costs and strong demand was exacerbated by supply shortages and transport dislocations. The surge in wholesale gas and electricity prices led to elevated inflation expectations. CPI for February 2022 registered 6.2% year on year, up from 5.5% in the previous month and the highest reading in the National Statistic series. Core inflation, which excludes the more volatile components, rose to 5.2% y/y from 4.4%.

The government's jobs furlough scheme insulated the labour market from the worst effects of the pandemic. The labour market began to tighten and demand for workers grew strongly as employers found it increasingly difficult to find workers to fill vacant jobs. Having peaked at 5.2% in December 2020, unemployment continued to fall and the most recent labour market data for the three months to January 2022 showed the unemployment rate at 3.9% while the employment rate rose to 75.6%. Headline 3-month average annual growth rate for wages were 4.8% for total pay and 3.8% for regular pay. In real terms, after adjusting for inflation, total pay growth was up 0.1% while regular pay fell by 1.0%.

With the fading of lockdown – and, briefly, the 'pingdemic' – restraints, activity in consumer-facing sectors improved substantially as did sectors such as oil and mining with the reopening of oil rigs but materials shortages and the reduction in the real spending power of households and businesses dampened some of the growth momentum. Gross domestic product (GDP) grew by an upwardly revised 1.3% in the fourth calendar quarter of 2021 according to the final estimate (initial estimate 1.0%) and took UK GDP to just 0.1% below where it was before the pandemic. The annual growth rate was revised down slightly to 7.4% (from 7.5%) following a revised 9.3% fall in 2020.

Having increased Bank Rate from 0.10% to 0.25% in December, the Bank of England hiked it further to 0.50% in February and 0.75% in March. At the meeting in February, the Monetary Policy Committee (MPC) voted unanimously to start reducing the stock of its asset purchase scheme by ceasing to reinvest the proceeds from maturing bonds as well as starting a programme of selling its corporate bonds.

In its March interest rate announcement, the MPC noted that the invasion of Ukraine had caused further large increases in energy and other commodity prices, with the expectation that the conflict will worsen supply chain disruptions around the world and push CPI inflation to around 8% later in 2022, even higher than forecast only a month before in the February

Monetary Policy Report. The Committee also noted that although GDP in January was stronger than expected with business confidence holding up and the labour market remaining robust, consumer confidence had fallen due to the squeeze in real household incomes.

GDP growth in the euro zone increased by 0.3% in calendar Q4 2021 following a gain of 2.3% in the third quarter and 2.2% in the second. Headline inflation remains high, with CPI registering a record 7.5% year-on-year in March, the ninth successive month of rising inflation. Core CPI inflation was 3.0% y/y in March, was well above the European Central Bank's target of 'below, but close to 2%', putting further pressure on its long-term stance of holding its main interest rate of 0%.

The US economy expanded at a downwardly revised annualised rate of 6.9% in Q4 2021, a sharp increase from a gain of 2.3% in the previous quarter. In its March 2022 interest rate announcement, the Federal Reserve raised the Fed Funds rate to between 0.25% and 0.50% and outlined further increases should be expected in the coming months. The Fed also repeated its plan to reduce its asset purchase programme which could start by May 2022.

Financial markets: The conflict in Ukraine added further volatility to the already uncertain inflation and interest rate outlook over the period. The Dow Jones started to decline in January but remained above its pre-pandemic level by the end of the period while the FTSE 250 and FTSE 100 also fell and ended the quarter below their pre-March 2020 levels.

Bond yields were similarly volatile as the tension between higher inflation and flight to quality from the war pushed and pulled yields, but with a general upward trend from higher interest rates dominating as yields generally climbed.

The 5-year UK benchmark gilt yield began the quarter at 0.82% before rising to 1.41%. Over the same period the 10-year gilt yield rose from 0.97% to 1.61% and the 20-year yield from 1.20% to 1.82%.

The Sterling Overnight Rate (SONIA) averaged 0.39% over the quarter.

Credit review: In the first half of FY 2021-22 credit default swap (CDS) spreads were flat over most of period and are broadly in line with their pre-pandemic levels. In September spreads rose by a few basis points due to concerns around Chinese property developer Evergrande defaulting but then fell back. Fitch and Moody's revised upward the outlook on a number of UK banks and building societies on the Authority's counterparty to 'stable', recognising their improved capital positions compared to 2020 and better economic growth prospects in the UK.

Fitch also revised the outlook for Nordea, Svenska Handelsbanken and Handelsbanken plc to stable. The agency considered the improved economic prospects in the Nordic region to have reduced the baseline downside risks it previously assigned to the lenders.

The successful vaccine rollout programme was credit positive for the financial services sector in general and the improved economic outlook meant some institutions were able to reduce provisions for bad loans. However, in 2022, the uncertainty engendered by Russia's invasion of Ukraine pushed CDS prices modestly

higher over the first calendar quarter, but only to levels slightly above their 2021 averages, illustrating the general resilience of the banking sector.

Having completed its full review of its credit advice on unsecured deposits, in September Arlingclose extended the maximum duration limit for UK bank entities on its recommended lending list from 35 days to 100 days; a similar extension was advised in December for the non-UK banks on this list. As ever, the institutions and durations on the Authority's counterparty list recommended by Arlingclose remains under constant review.

## 2. Economic Background 2022/23

The ongoing conflict in Ukraine has continued to put pressure on global inflation and the economic outlook for UK and world growth remains weak.

The economic backdrop during the April to September period continued to be characterised by high oil, gas and commodity prices, ongoing high inflation and its impact on consumers' cost of living, no imminent end in sight to the Russia-Ukraine hostilities and its associated impact on the supply chain, and China's zero-Covid policy.

Central Bank rhetoric and action remained robust. The Bank of England, Federal Reserve and the European Central Bank all pushed up interest rates over the period and committed to fighting inflation, even when the consequences were in all likelihood recessions in those regions.

UK inflation remained extremely high. Annual headline CPI hit 10.1% in July, the highest rate for 40 years, before falling modestly to 9.9% in August. RPI registered 12.3% in both July and August. The energy regulator, Ofgem, increased the energy price cap by 54% in April, while a further increase in the cap from October, which would have seen households with average energy consumption pay over £3,500 per annum, was dampened by the UK government stepping in to provide around £150 billion of support to limit bills to £2,500 annually until 2024.

The labour market remained tight through the period but there was some evidence of easing demand and falling supply. The unemployment rate 3m/year for April fell to 3.8% and declined further to 3.6% in July. Although now back below pre-pandemic levels, the recent decline was driven by an increase in inactivity rather than demand for labour. Pay growth in July was 5.5% for total pay (including bonuses) and 5.2% for regular pay. Once adjusted for inflation, however, growth in total pay was -2.6% and -2.8% for regular pay.

With disposable income squeezed and higher energy bills still to come, consumer confidence fell to a record low of -44 in August, down -41 in the previous month. Quarterly GDP fell -0.1% in the April-June quarter driven by a decline in services output, but slightly better than the 0.3% fall expected by the Bank of England.

The Bank of England increased the official Bank Rate to 2.25% over the period. From 0.75% in March, the Monetary Policy Committee (MPC) pushed through rises of 0.25% in each of the following two MPC meetings, before hiking by 0.50% in August and again in September. August's rise was voted by a majority of 8-1, with one MPC member preferring a more modest rise of 0.25%. The September vote was 5-4, with five votes for an 0.5% increase, three for an 0.75% increase and one for an 0.25% increase. The Committee noted that domestic inflationary pressures are expected to remain strong and so given ongoing strong rhetoric around tackling inflation further Bank Rate rises should be expected.

On 23rd September the UK government, following a change of leadership, announced a raft of measures to loosen fiscal policy in order to boost the UK's trend growth rate to 2.5%. With little detail on how borrowing would be returned to a sustainable path, financial markets reacted negatively. Bank of England policymakers noted that any resulting inflationary impact of increased demand would be met with monetary tightening, raising the prospect of much higher Bank Rate and consequential negative impacts on the housing market.

After hitting 9.1% in June, annual US inflation eased in July and August to 8.5% and 8.3% respectively. The Federal Reserve continued its fight against inflation over the period with a 0.5% hike in May followed by further increases of 0.75% in both June and July, taking policy rates to a range of 2.25% - 2.50%.

Eurozone CPI inflation reached 9.1% y/y in August, with energy prices the main contributor but also strong upward pressure from food prices. Inflation has increased steadily since April from 7.4%. In July the European Central Bank increased interest rates for the first time since 2011, pushing its deposit rate from -0.5% to 0% and its main refinancing rate from 0.0% to 0.5%. This was followed in September by further hikes of 0.75% to both policy rates, taking the deposit rate to 0.75% and refinancing rate to 1.25%.

### 3. Financial Markets 2022/23

Uncertainty remained in control of financial market sentiment and bond yields remained volatile, continuing their general upward trend as concern over higher inflation and higher interest rates continued to dominate. Towards the end of September, volatility in financial markets was significantly exacerbated by the UK government's fiscal plans, leading to an acceleration in the rate of the rise in gilt yields and decline in the value of sterling.

Due to pressure on pension funds, the Bank of England announced a direct intervention in the gilt market to increase liquidity and reduce yields.

Over the period the 5-year UK benchmark gilt yield rose from 1.41% to 4.29% (28 September), the 10-year gilt yield rose from 1.61% to 4.01% (28 September) and the 20-year yield from 1.82% to 4.14% (28 September). The Sterling Overnight Rate (SONIA) averaged 1.11% over the period (to end August).

### 3. Credit Review 2022/23

In July Fitch revised the outlook on Standard Chartered from negative to stable as it expected profitability to improve thanks to the higher interest rate environment. Fitch also revised the outlook for Bank of Nova Scotia from negative to stable due to its robust business profile.

Also in July, Moody's revised the outlook on Bayerische Landesbank to positive and then in September S&P revised the GLA outlook to stable from negative as it expects the authority to remain resilient despite pressures from a weaker macroeconomic outlook coupled with higher inflation and interest rates.

Having completed its full review of its credit advice on unsecured deposits at UK and non-UK banks, in May Arlingclose extended the maximum duration limit for five UK banks, four Canadian banks and four German banks to six months. The maximum duration for unsecured deposits with other UK and non-UK banks on Arlingclose's recommended list is 100 days. These recommendations were unchanged at the end of the period.

Arlingclose continued to monitor and assess credit default swap levels for signs of credit stress but made no changes to the counterparty list or recommended durations. Nevertheless, increased market volatility is expected to remain a feature, at least in the near term and, as ever, the institutions and durations on the Authority's counterparty list recommended by Arlingclose remains under constant review.

This page is intentionally left blank