

Governance Committee

Monday, 26th July, 2021
at 5.00 pm

PLEASE NOTE TIME OF MEETING

Council Chamber - Civic Centre

This meeting is open to the public

Members of the Committee

Councillor Bunday
Councillor Fuller (Chair)
Councillor D Galton
Councillor Magee
Councillor Shields

Contacts

Service Director – Legal and Business Operations
Richard Ivory
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Emily Goodwin/Pat Wood
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PUBLIC INFORMATION

Role of the Governance Committee

Information regarding the role of the Committee's is contained in Part 2 (Articles) of the Council's Constitution.

[02 Part 2 - Articles](#)

It includes at least one Councillor from each of the political groups represented on the Council, and at least one independent person, without voting rights, who is not a Councillor or an Officer of the Council.

Access – Access is available for disabled people. Please contact the Democratic Support Officer who will help to make any necessary arrangements.

Public Representations At the discretion of the Chair, members of the public may address the meeting on any report included on the agenda in which they have a relevant interest. Any member of the public wishing to address the meeting should advise the Democratic Support Officer (DSO) whose contact details are on the front sheet of the agenda

Southampton: Corporate Plan 2020-2025 sets out the four key outcomes:

- Communities, culture & homes - Celebrating the diversity of cultures within Southampton; enhancing our cultural and historical offer and using these to help transform our communities.
- Green City - Providing a sustainable, clean, healthy and safe environment for everyone. Nurturing green spaces and embracing our waterfront.
- Place shaping - Delivering a city for future generations. Using data, insight and vision to meet the current and future needs of the city.
- Wellbeing - Start well, live well, age well, die well; working with other partners and other services to make sure that customers get the right help at the right time

Smoking policy – The Council operates a no-smoking policy in all civic buildings.

Mobile Telephones:- Please switch your mobile telephones to silent whilst in the meeting

Use of Social Media:- The Council supports the video or audio recording of meetings open to the public, for either live or subsequent broadcast. However, if, in the Chair's opinion, a person filming or recording a meeting or taking photographs is interrupting proceedings or causing a disturbance, under the Council's Standing Orders the person can be ordered to stop their activity, or to leave the meeting. By entering the meeting room you are consenting to being recorded and to the use of those images and recordings for broadcasting and or/training purposes. The meeting may be recorded by the press or members of the public.

Any person or organisation filming, recording or broadcasting any meeting of the Council is responsible for any claims or other liability resulting from them doing so.

Details of the Council's Guidance on the recording of meetings is available on the Council's website.

Dates of Meetings: Municipal Year 2021/2022

2021	2022
14 June	14 February
26 July	25 April
27 September	
15 November	
13 December	

CONDUCT OF MEETING

Terms of Reference

The terms of reference of the Governance Committee are contained in Part 3 of the Council's Constitution.

[03 - Part 3 - Responsibility for Functions](#)

Rules of Procedure

The meeting is governed by the Council Procedure Rules as set out in Part 4 of the Constitution.

Business to be discussed

Only those items listed on the attached agenda may be considered at this meeting.

Quorum

The minimum number of appointed Members required to be in attendance to hold the meeting is 3.

DISCLOSURE OF INTERESTS

Members are required to disclose, in accordance with the Members' Code of Conduct, **both** the existence **and** nature of any "Disclosable Pecuniary Interest" or "Other Interest" they may have in relation to matters for consideration on this Agenda.

DISCLOSABLE PECUNIARY INTERESTS

A Member must regard himself or herself as having a Disclosable Pecuniary Interest in any matter that they or their spouse, partner, a person they are living with as husband or wife, or a person with whom they are living as if they were a civil partner in relation to:

- (i) Any employment, office, trade, profession or vocation carried on for profit or gain.
- (ii) Sponsorship:

Any payment or provision of any other financial benefit (other than from Southampton City Council) made or provided within the relevant period in respect of any expense incurred by you in carrying out duties as a member, or towards your election expenses. This includes any payment or financial benefit from a trade union within the meaning of the Trade Union and Labour Relations (Consolidation) Act 1992.

(iii) Any contract which is made between you / your spouse etc (or a body in which the you / your spouse etc has a beneficial interest) and Southampton City Council under which goods or services are to be provided or works are to be executed, and which has not been fully discharged.

(iv) Any beneficial interest in land which is within the area of Southampton.

(v) Any license (held alone or jointly with others) to occupy land in the area of Southampton for a month or longer.

(vi) Any tenancy where (to your knowledge) the landlord is Southampton City Council and the tenant is a body in which you / your spouse etc has a beneficial interests.

(vii) Any beneficial interest in securities of a body where that body (to your knowledge) has a place of business or land in the area of Southampton, and either:

- a) the total nominal value of the securities exceeds £25,000 or one hundredth of the total issued share capital of that body, or
- b) if the share capital of that body is of more than one class, the total nominal value of the shares of any one class in which you / your spouse etc has a beneficial interest that exceeds one hundredth of the total issued share capital of that class.

Other Interests

A Member must regard himself or herself as having an, 'Other Interest' in any membership of, or occupation of a position of general control or management in:

Any body to which they have been appointed or nominated by Southampton City Council

Any public authority or body exercising functions of a public nature

Any body directed to charitable purposes

Any body whose principal purpose includes the influence of public opinion or policy

Principles of Decision Making

All decisions of the Council will be made in accordance with the following principles:-

- proportionality (i.e. the action must be proportionate to the desired outcome);
- due consultation and the taking of professional advice from officers;
- respect for human rights;
- a presumption in favour of openness, accountability and transparency;
- setting out what options have been considered;
- setting out reasons for the decision; and
- clarity of aims and desired outcomes.

In exercising discretion, the decision maker must:

- understand the law that regulates the decision making power and gives effect to it. The decision-maker must direct itself properly in law;
- take into account all relevant matters (those matters which the law requires the authority as a matter of legal obligation to take into account);
- leave out of account irrelevant considerations;
- act for a proper purpose, exercising its powers for the public good;
- not reach a decision which no authority acting reasonably could reach, (also known as the "rationality" or "taking leave of your senses" principle);
- comply with the rule that local government finance is to be conducted on an annual basis. Save to the extent authorised by Parliament, 'live now, pay later' and forward funding are unlawful; and
- act with procedural propriety in accordance with the rules of fairness.

AGENDA

1 **APOLOGIES**

To receive any apologies.

2 **ELECTION OF VICE-CHAIR**

To elect a Vice Chair for the Municipal Year 2021/22.

3 **DISCLOSURE OF PERSONAL AND PECUNIARY INTERESTS**

In accordance with the Localism Act 2011, and the Council's Code of Conduct, Members to disclose any personal or pecuniary interests in any matter included on the agenda for this meeting.

NOTE: Members are reminded that, where applicable, they must complete the appropriate form recording details of any such interests and hand it to the Democratic Support Officer.

4 **STATEMENT FROM THE CHAIR**

5 **MINUTES OF PREVIOUS MEETING (INCLUDING MATTERS ARISING)**

(Pages 1 - 2)

To approve and sign as a correct record the Minutes of the meeting held on 19 April 2021 and to deal with any matters arising.

6 **WORKFORCE DATA AND HR QUARTERLY STATISTICS**

(Pages 3 - 14)

Report of the Service Director, Human Resources and Organisational Development detailing the quarterly statistic relating to employment figures.

7 **PROJECTS AND PROGRAMMES SIX MONTHLY REPORT**

(Pages 15 - 24)

Report of the Deputy Chief Executive outlining the latest governance position regarding projects and programmes outlined in the Corporate Plan 2020-25.

8 **ANNUAL GOVERNANCE STATEMENT**

(Pages 25 - 46)

Report of the Executive Director Finance & Commercialisation and Section 151 Officer seeking to review the draft Annual Governance Statement 2020-21 and to note the status of the 2019-20 Annual Governance Statement Action Plan.

9 DRAFT STATEMENT OF ACCOUNTS 2020-21

(Pages 47 - 190)

Report of the Executive Director Finance and Commercialism & S151 Officer detailing the Draft Financial Statements 2020/21.

10 ANNUAL INTERNAL AUDIT OPINION 2020-21

(Pages 191 - 240)

Report of the Chief Internal Auditor detailing the Annual Internal Audit Opinion 2020/21.

11 REVIEW OF PRUDENTIAL LIMITS AND TREASURY MANAGEMENT OUTTURN 2020/21

(Pages 241 - 270)

Report of the Executive Director for Finance and Commercialisation & S151 Officer detailing a review of the Prudential Limits and Treasury Management Outturn 2020/21.

12 2020/21 EXTERNAL AUDIT PLAN

(Pages 271 - 320)

Report of the External Auditor detailing the 2020/21 Audit Plan.

Friday, 16 July 2021

Service Director, Legal & Governance

GOVERNANCE COMMITTEE
MINUTES OF THE MEETING HELD ON 19 APRIL 2021

Present: Councillors Keogh (Chair), Kataria (Vice-Chair), G Galton, Harwood, Professor Margetts, White and Windle

38. **DISCLOSURE OF PERSONAL AND PECUNIARY INTERESTS**

Councillor White declared a personal interest in Minute 41, as a School Governor, but continued to take part in the discussion.

39. **MINUTES OF PREVIOUS MEETING (INCLUDING MATTERS ARISING)**

RESOLVED: that the minutes for the Committee meeting on 15 February 2021 be approved and signed as a correct record.

40. **HR QUARTERLY STATISTICS REPORT**

The Committee received and noted the report of the Service Director, Human Resources and Organisational Development detailing workforce data and quarterly statistics relating to employment data.

The Committee particularly noted the downward trend of sickness levels which currently showed an average of 7.82 days per employee.

41. **INTERNAL AUDIT PROGRESS REPORT**

The Committee received and noted the report of the Chief Internal Auditor detailing the internal audit progress for 2020-2021.

The Committee noted that a number of unitary authorities had reduced areas of support and that Southampton City Council no longer had a team to support schools. Some mitigating measures had been put into place in this regard and information was being cascaded to relevant staff to take action.

42. **INTERNAL AUDIT ANNUAL AUDIT PLAN**

The Committee considered the report of the Chief Internal Auditor detailing the internal annual audit plan for 2021-2022.

The Committee noted that the plan had been, and would continue to be, a fluid plan due to the pandemic. It was agreed that the Chief Internal Auditor would have a discussion with the Director regarding whether or not childhood hunger/obesity could be included in the Plan for this year or next year.

RESOLVED: that the provisional annual audit plan for 2021-2022 be approved.

43. **ANTI-FRAUD, BRIBERY AND CORRUPTION, ANTI-MONEY LAUNDERING AND WHISTLEBLOWING (DUTY TO ACT) POLICY REVIEWS**

The Committee considered the report of the Chief Internal Auditor seeking approval of revised policy reviews.

RESOLVED: that the Anti-Fraud, Bribery and Corruption, Anti-Money Laundering and Whistleblowing (Duty to Act) Policy Reviews be approved.

Agenda Item 6

DECISION-MAKER:	GOVERNANCE COMMITTEE		
SUBJECT:	Workforce Data and Quarterly HR Statistics		
DATE OF MEETING:	26 th July 2021		
REPORT OF:	Service Director, HR and OD		
<u>CONTACT DETAILS</u>			
AUTHOR:	Name:	Service Director HR and OD	Tel: 023 8083 2378
	E-mail:	Janet.king@southampton.gov.uk	
Deputy Chief Executive	Name:	Deputy Chief Executive	Tel: 023 8083 2882
	E-mail:	Mike.harris@southampton.gov.uk	

STATEMENT OF CONFIDENTIALITY	
None. This report contains no personal information relating to specific individuals.	
BRIEF SUMMARY	
<p>The Governance Committee requested a council wide breakdown of the workforce characteristics demonstrating the current profile in respect of diversity and equality across the Authority. Disclosure of personal characteristics is discretionary.</p> <p>The Committee also receive the attached quarterly reporting on HR Data – sickness absence and employee relations cases.</p>	
Disclosure of RECOMMENDATIONS:	
(i)	To note the data as requested.
REASONS FOR REPORT RECOMMENDATIONS	
1.	As requested by the Governance Committee.
ALTERNATIVE OPTIONS CONSIDERED AND REJECTED	
	N/A
DETAIL	
2..	<p>The workforce data relies on personal submission from staff for input to their Business World employee record. An exercise to collect up to date information was completed in 2018/19 as part of the transition to the new system and switch from Resource Link to Business World; since this regular reminders are sent out with guidance to staff on input/update to their Business World record to help ensure as accurate a picture as possible.</p> <p>New starters are asked for their data as a standard HR process to enable us to have an overview of the workforce profile. However, many staff still elect to not disclose ethnicity and/or disability.</p> <p>This means the overall picture is an indicative snapshot only at any time.</p>
3.	<p>Disclosure of personal characteristics is discretionary and in terms of combined data of “not supplied” and “prefer not to say” this applies in the following characteristics:</p> <ul style="list-style-type: none"> • Sexual Orientation 42% • Gender 35%

	<ul style="list-style-type: none"> • Ethnicity 29% • Disability 35%
4.	<p>Although the picture is incomplete the council is committed to diversity, equality and inclusion. As part of the 2021 work we are introducing focus groups for staff / trade union representatives to look at protected characteristics and invite discussion on any areas of concern identified. Feedback from the sessions will be used to inform positive work around Diversity and Inclusion and this has the sponsorship of the Executive Management Team under the Executive Director Communities, Culture and Neighbourhoods.</p>
5.	<p>Recruitment to vacant posts is always based on competency interviews against the published job specifications.</p>
6.	<p>Noted below is the quarterly, council wide information on key employment data covering disciplinaries, dismissals, referrals to the police, suspensions and grievances and information on levels of staff sickness.</p>
7.	<p>In the period April 2021 to end June 2021 the Council had:</p> <p>A total of 8 dismissals:</p> <ul style="list-style-type: none"> • 1 as a result of service restructures • 5 for sickness absence • 2 for disciplinary <p>In addition, there were:</p> <ul style="list-style-type: none"> • 4 suspensions
8.	<p>Overall sickness levels for the council showed an average 7.43 days per employee. This continues to show a month on month downward trend, however key areas for focus are still evident in Wellbeing (Health and Adults) and Place where there are high levels of front-line workers. HR are also looking at particular roles in relation to sickness absence to determine any job design issues which may contribute to absence levels and which can be addressed.</p> <p>Some of the downward trend can be attributed to the flexibility of working practices which have increased during the last year enabling staff to work remotely.</p> <p>The sector “average” is 8 days.</p> <p>The total number of absences in the last 12 months, shows that short term absence accounts for 89% of the overall absence occurrences, whilst long term sickness accounts for 11% of the overall absence occurrences.</p> <p>The total number of days lost to absence in the last 12 months, shows that short term absence accounted for 38% of the overall absence days lost, whilst the number of days lost to long term sickness accounts for 62% of the overall absence days lost.</p> <p>Main reasons for absence are attributed to mental health and wellbeing and muscular-skeletal conditions. As part of the wellbeing work for 2021 these two key areas will continue to be addressed in terms of advice, guidance, learning and prevention as part of the wider wellbeing strategy.</p>

	Covid related absence data is also collected to help us understand the impact of the pandemic (Covid cases; self-isolation; after effects of vaccination). The absence data is regularly discussed with the Chief Executive and Directorate Management Teams.
RESOURCE IMPLICATIONS	
<u>Capital/Revenue</u>	
6.	None
<u>Property/Other</u>	
7.	None
LEGAL IMPLICATIONS	
<u>Statutory power to undertake proposals in the report:</u>	
8.	There are no proposals, this report is only management information.
<u>Other Legal Implications:</u>	
9.	None
RISK MANAGEMENT IMPLICATIONS	
10..	None
POLICY FRAMEWORK IMPLICATIONS	
11.	None

KEY DECISION?	No
WARDS/COMMUNITIES AFFECTED:	None
<u>SUPPORTING DOCUMENTATION</u>	
Appendices	
1.	Workforce Data – Council wide and by Directorate
2.	Sickness absence data Month on month trend
3.	Covid related absence data

Documents In Members' Rooms

1.	
2.	
Equality Impact Assessment	
Do the implications/subject of the report require an Equality and Safety Impact Assessment (ESIA) to be carried out.	No
Data Protection Impact Assessment	
Do the implications/subject of the report require a Data Protection Impact Assessment (DPIA) to be carried out.	No

Other Background Documents		
Other Background documents available for inspection at:		
Title of Background Paper(s)	Relevant Paragraph of the Access to Information Procedure Rules / Schedule 12A allowing document to be Exempt/Confidential (if applicable)	
1.		
2.		

Southampton City Council - Quarterly Governance Stats

Covers April, May, June															
Exec Director	Disciplinarys			Dismissals							Resolutions	Suspensions	Appeals		
	Final WW	Dismissed	Referral to Police	Total Dismissals	Capability	Disciplinary	Health	Probation	Restructures	Other	Commentary	Step 3 Resolutions	Total Suspensions	Number	Number upheld
Exec Director - Business Services	0	0	0	0	0	0	0	0	0	0		0	0	0	0
Exec Director - Children & Learning	0	0	0	0	0	0	1	0	1	1		0	1	0	0
Exec Director - Communities, Culture & Home	0	0	0	0	0	0	0	0	0	0		0	1	0	0
Exec Director - Finance	0	1	0	1	0	0	0	0	0	1		0	0	0	0
Exec Director - Place	0	0	0	0	0	0	0	0	0	0		0	2	0	0
Exec Director Wellbeing - Health & Adults	0	4	0	4	0	0	4	0	0	0		0	0	0	0
Southampton City Council (Total)	0	5	0	5	0	0	5	0	1	2		0	4	0	0

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Sickness Absence Report: July '20 - June '21

Select Report: **SCC**

Status

Target = < 8.0 days = Green, 8.1 - 10 days = Amber, > 10 days = Red

Team	Metric	Sickness Absence Days Per Employee - All Absence (Leavers Excluded)	Sickness Absence Days Per Employee - All Absence	Sickness Absence Days Per Employee - Short Term Absence	Sickness Absence Days Per Employee - Long Term Absence	FTE Days Lost
	Target Status	8.0	8.0			
SCC		7.43	8.16	3.08	5.08	26,530
Business Services		3.75	4.07	1.80	2.26	2,240
Communities, Culture & Home		7.32	7.89	2.74	5.15	6,079
Finance		5.86	6.57	1.86	4.71	1,467
Place		8.05	9.25	3.38	5.87	5,668
Wellbeing - Children & Learning		8.01	8.65	3.53	5.13	4,932
Wellbeing - Health & Adults		10.79	11.75	4.63	7.12	6,144

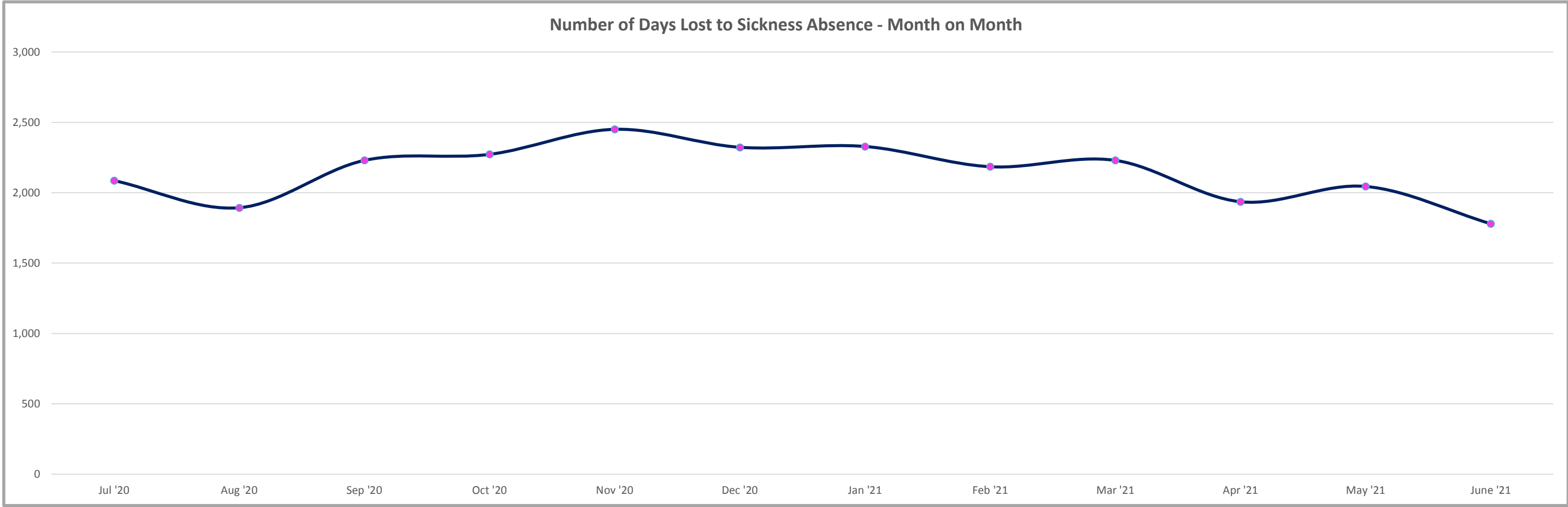
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SCC

Please select the relevant team from the drop down to see the sickness figures month on month for the last rolling year

Number of Days Lost to Sickness Absence - Month on Month

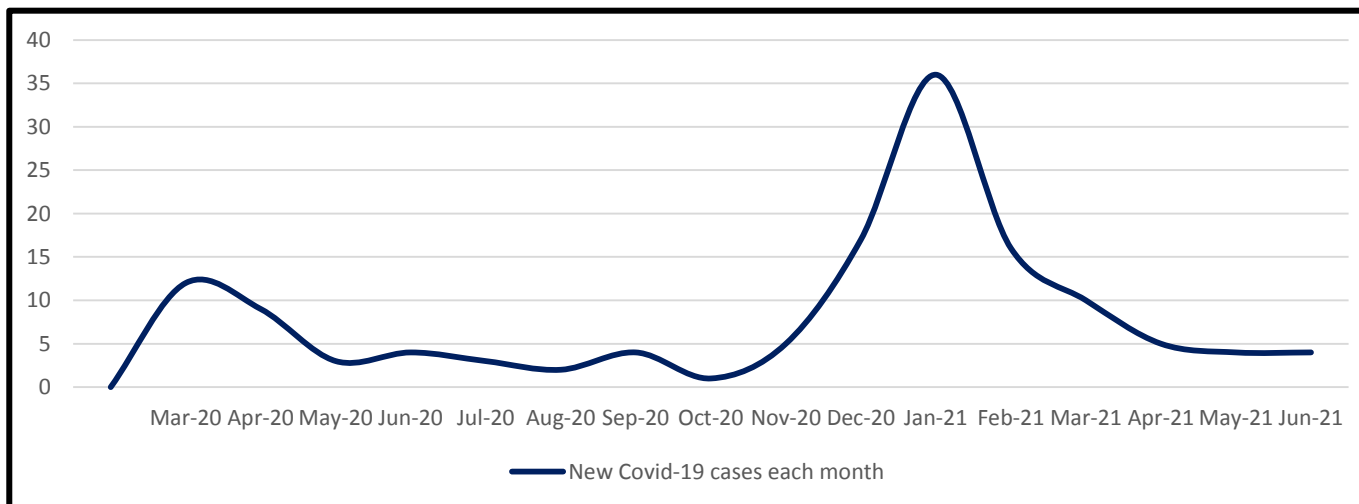
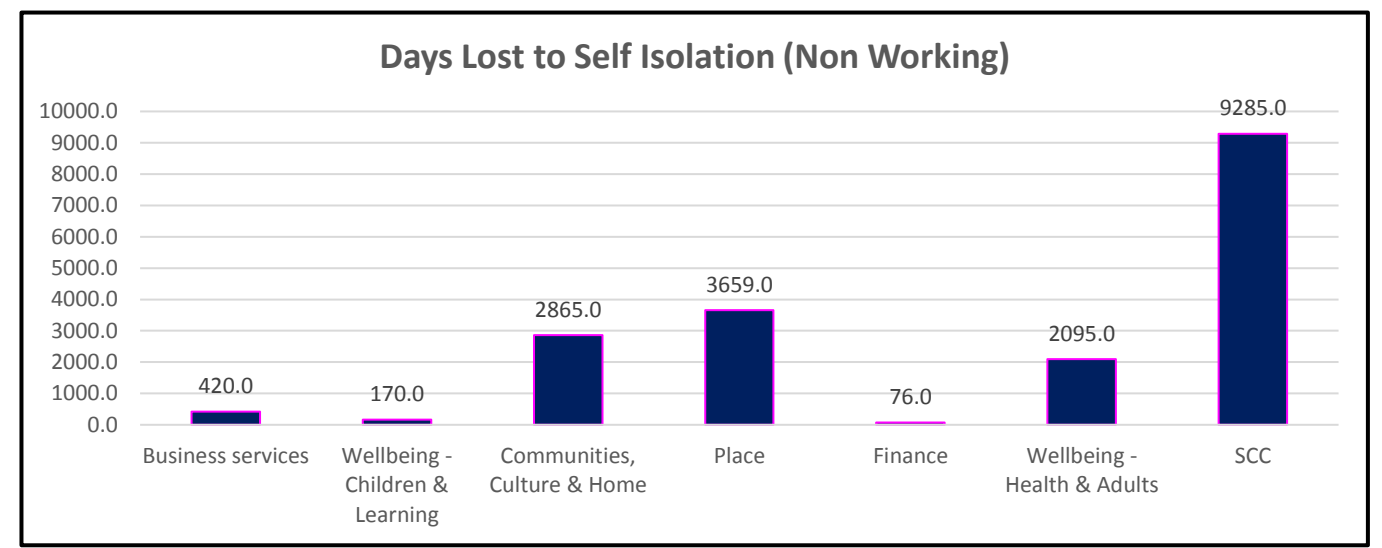
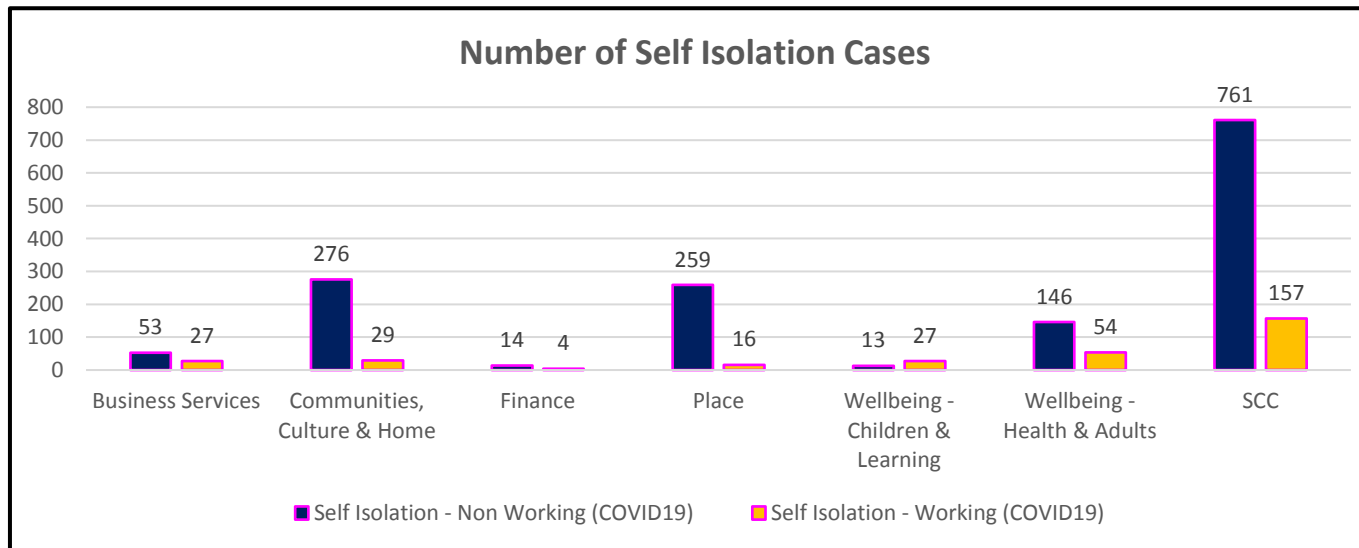
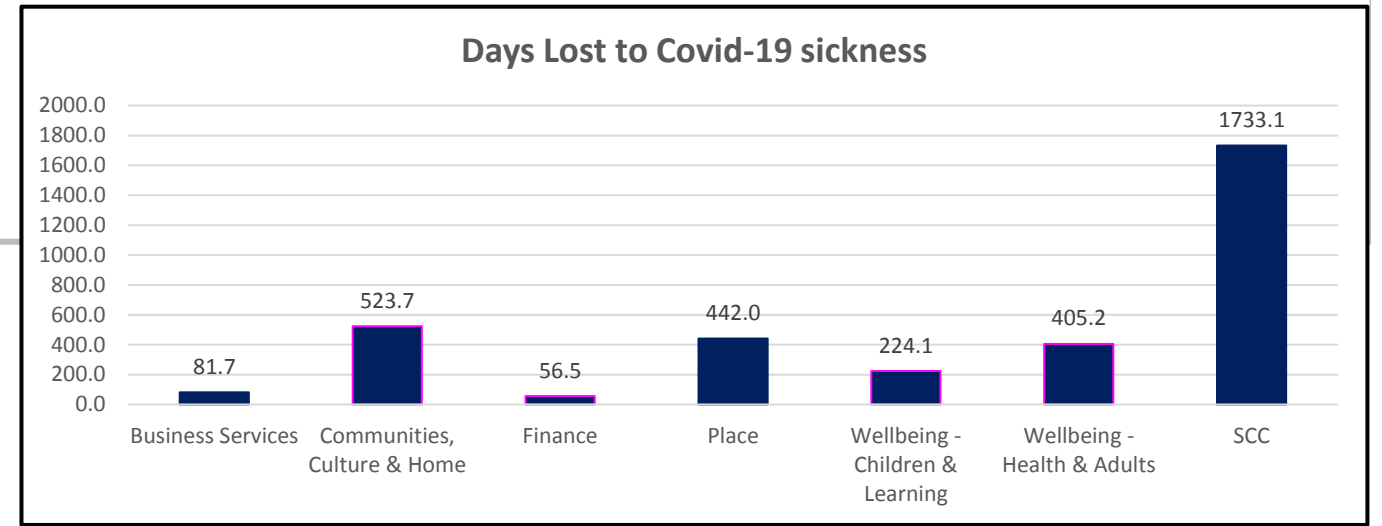
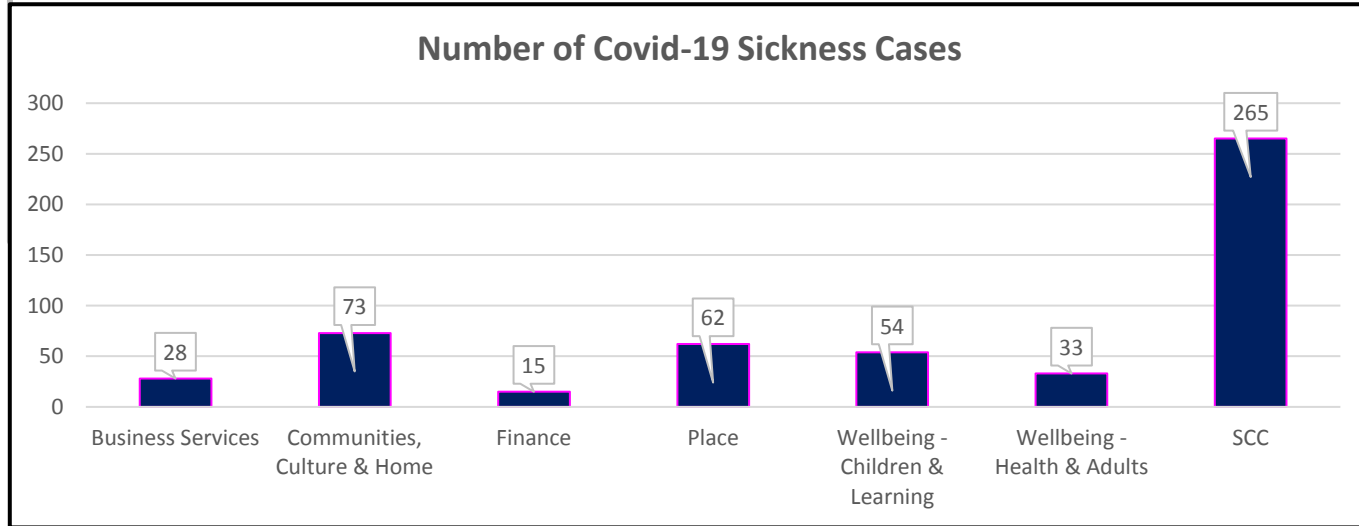
Team	Jul '20	Aug '20	Trend	Sep '20	Trend	Oct '20	Trend	Nov '20	Trend	Dec '20	Trend	Jan '21	Trend	Feb '21	Trend	Mar '21	Trend	Apr '21	Trend	May '21	Trend	June '21	Trend
SCC	2,086	1,893	Down	2,229	Up	2,272	Up	2,450	Up	2,322	Down	2,328	Up	2,184	Down	2,230	Up	1,936	Down	2,044	Up	1,779	Down



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Coronavirus – Summary Data

- This data is based on the first entered case of self isolation (6th March 2020) through to the end of June 2021
- We have had 265 cases of Covid-19 recorded on Business World (including 'long covid' and 'Covid vaccine reaction'), this equates to a loss of 1733 working days to date. Since January we have had 222 cases, this equates to 1159 working days.
- We have a total of 918 cases of self isolation (157 working & 761 non-working). The non-working cases equate to a loss of 9,285 days to date.



- 103 cases of covid-19 where the individual is above 50 years old
- 7 cases of covid-19 where the individual has a recorded disability
- 404 cases of self isolation where the individual is over 50 years old
- 64 cases of self isolation where the individual has a recorded disability
- 240 FTE days lost to Covid-19 Vaccine reactions

Coronavirus – Summary Data

Agenda Item 7

DECISION-MAKER:	Governance Committee
SUBJECT:	Projects and programmes bi-annual report
DATE OF DECISION:	19 th July 2021
REPORT OF:	Head of Projects, Policy & Performance – Munira Holloway

<u>CONTACT DETAILS</u>			
Executive Director	Title	Executive Director – Business Services	
	Name:	Mike Harris	Tel: 023 8083 2882
	E-mail	Mike.harris@southampton.gov.uk	
Author:	Title	Head of Projects, Policy & Performance	
	Name:	Munira Holloway	Tel: 023 8083 4476
	E-mail	Munira.holloway@southampton.gov.uk	

STATEMENT OF CONFIDENTIALITY

None

BRIEF SUMMARY

The 2020-25 Corporate Plan was approved at full council in February 2020 alongside the Medium-Term Financial Strategy. The plan set out the key projects for the five year period as understood at that time. This paper provides an update on the governance approach and progress of the key programmes and initiatives outlined in that report. Future reports will be reflective of the revised 2021-25 Corporate Plan as submitted to Council on 21st July 2021

A copy of the 2020-21 end of year update is attached as an appendix.

RECOMMENDATIONS:

	(i)	Report to be noted.
	(ii)	

REASONS FOR REPORT RECOMMENDATIONS

1.	In order to update the Governance Committee on the governance around, and progress on major projects and programmes as outlined in the Corporate Plan 2020-25.
2.	To note that the next report will be reflective of the projects as outlined in the revised Corporate Plan 2021-25.

ALTERNATIVE OPTIONS CONSIDERED AND REJECTED

3.	Not to update the committee, not considered to be an appropriate option.

DETAIL (Including consultation carried out)

4.	The Association of Project Management (APM) methodology was adopted as the recognised approach for managing projects and programmes in 2020.
5.	Each major project or programme follows the APM approach and updates are reported both to the relevant project/programme board and to the Change Authority Board (CAB) that meets every two months.
6.	<p>The projects and programmes that were identified in the 2020-25 Corporate Plan are as follows:</p> <ul style="list-style-type: none"> • Delivering more quality, affordable council homes (1,000 homes) • Bitterne Community Hub • City of Culture bid • Outdoor Sports Centre • Green City programme • Mayflower Quarter • Local Transport Plan • Local Development Plan • St Mark's School • Adults transformation programme • New Client Case Management system for social care • Customer Experience programme • Itchen Bridge contactless payments • Way we work programme
7.	A red/amber/green (RAG) status and commentary update to these, and to other initiatives in the 2020 Corporate Plan are outlined in the appendix.
8.	For projects/programmes identified as 'red' or 'amber', appropriate recovery plans are expected to bring the delivery back to green. In some instances, this may require a re-baselining of the delivery plan.
9.	The 'current direction of travel' relates to the status of the project at the time the commentary was completed.
10.	A revised Corporate Plan for 2021 reflecting the new priorities will be published as part of the July Council meeting. On the assumption the new priorities are agreed at Council, these will be included in the next bi-annual governance report.
11.	Where initiatives in the Corporate Plan are 'business as usual' rather than defined as a project or programme, their progress will be monitored through the standard council governance processes including Business Plan reviews and Cabinet Member Briefings.
12.	Governance of other major projects and programmes that do not form part of the Corporate Plan are also managed using the APM methodology and monitored through the council's Change Authority Board.
RESOURCE IMPLICATIONS	
<u>Capital/Revenue</u>	
13.	All implications considered as part of project and managed through project governance.

<u>Property/Other</u>	
14.	All implications considered as part of project and managed through project governance.
LEGAL IMPLICATIONS	
<u>Statutory power to undertake proposals in the report:</u>	
15.	S.1 Localism Act 2011, S.111 Local Government Act 1972.
<u>Other Legal Implications:</u>	
16.	None
RISK MANAGEMENT IMPLICATIONS	
17.	All projects and programmes will have risk registers included as part of their project management arrangements. These include mitigating actions and timelines for implementation. The Executive Management Team review escalated and joint risks as part of the Change Authority Board to ensure a risk management overview at a council wide level.
POLICY FRAMEWORK IMPLICATIONS	
18.	The projects identified are part of the council's approved Corporate Plan 2020-25.

KEY DECISION?	No
WARDS/COMMUNITIES AFFECTED:	
<u>SUPPORTING DOCUMENTATION</u>	
Appendices	
1.	SCC Corporate Plan 2020-25 – end of year review.
2.	

Documents In Members' Rooms

1.	
2.	

Equality Impact Assessment

Do the implications/subject of the report require an Equality and Safety Impact Assessment (ESIA) to be carried out.	Yes/No
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Data Protection Impact Assessment

Do the implications/subject of the report require a Data Protection Impact Assessment (DPIA) to be carried out.		Yes/No
Other Background Documents		
Other Background documents available for inspection at:		
Title of Background Paper(s)	Relevant Paragraph of the Access to Information Procedure Rules / Schedule 12A allowing document to be Exempt/Confidential (if applicable)	
1.		
2.		

**SCC Corporate Plan – end of year update
2020-2021**

Despite the continued challenges of the pandemic on both the social and economic health of the city, and the resources of the council to respond to these issues, there has been encouraging progress, with all initiatives at amber or green status. The continued efforts of colleagues and partners to maintain momentum on transformational projects, while continuing to deliver essential services for residents, businesses, and visitors, is something that we are all very proud of. COVID-19 will have longer-term implications for the city and our plans may need to be revised in order to respond appropriately, but the ambition and determination to ensure the future of the city is greener, fairer, and healthier, remains undiminished.

Communities, culture & homes

Celebrating the diversity of cultures within Southampton; enhancing our cultural and historical offer and using these to help transform our communities.

We are focused on helping communities develop into thriving neighbourhoods that reflect Southampton as a vibrant and diverse city. Our aim is to build a safe, inclusive and friendly environment, where everyone can access the opportunities the city has to offer.

Red	Recovery plan required
Amber	At risk
Green	On track

What are we doing?	Q2	Q4	Current direction of travel	Comments
Supporting safer communities	A	A	Improving	<p>We're continuing to work with partners across the city to support initiatives that will help build a safer city such as funding a range of youth engagement activities, and extending the Hate Crime Network. The city survey results show that there is still some way to go – while people are feeling safer during the day, they are feeling less safe at night than before. We recognise that crime levels in the city, particularly violence, remain high as do rates of high-risk domestic abuse referrals.</p> <p>A new Cohesion Team will be in place by the summer of 2021 to add capacity to the existing Violence Reduction Unit (VRU) which includes support in areas of work such as Prevent, hate crime, and modern slavery. The VRU will also continue collaborative community projects to tackle serious youth violence and improve support in this area. A review is being carried out on our local domestic violence abuse support. As a result of the pandemic there has been a specific focus on COVID-19 activity, including Covid Marshalls.</p>
Delivering more quality, affordable council homes	G	G	Stable	<p>Out of the 1,000 homes planned, 274 are completed or under construction. The remaining 726 are in the planning stages and are expected to be delivered within agreed timescales.</p> <p>We are improving the way we manage and maintain our council homes through early identification and repair of properties in poor condition. We are also investing in systems to improve the speed and cost of the way we work to provide a faster and more consistent tenant experience. Staff are also being trained to ensure they are able to better understand, and support tenant's needs on a case-by-case basis.</p>
Bitterne Community Hub	A	A	Stable	Options continue to be explored and an engagement is being planned for Bitterne in the spring to identify local priorities and to secure feedback on a hub. In parallel, a review of the city-wide leisure provision is being undertaken which will include identifying the need for sports facilities in the Bitterne area.
City of Culture	G	G	Stable	The City of Culture bid has built widespread support from across the city and the wider region. There has been a significant amount of consultation and engagement including with: artists, cultural and creative sectors, businesses, residents, councillors and key stakeholders across the city. The outcomes of the consultations are being reviewed in conjunction with work being undertaken by colleagues at the University of Southampton, Solent University, and the council. Using the data gathered, the themes for Southampton's bid are developing and will help design the activities that will take place. The first Premier Partner toob and Seasonal Partner West Quay are in place. The Gateway business club was also successfully launched in March.
Outdoor Sports Centre	A	A	Stable	Proposals have been developed for a wide range of improvements to the Outdoor Sports Centre which will be shared through a public consultation launching in May 2021. The consultation will seek comments on the proposals to inform the detailed design and planning submission. The council continues to work with the Football Foundation, Sport England, national governing bodies, local clubs and organisations on this project.

Providing a sustainable, clean, healthy and safe environment for everyone. Nurturing green spaces and embracing our waterfront.

Focusing on sustainability, the Green City strategy is an ambitious set of initiatives working to improve the environment across the city. It is important to us that the city supports economic growth, bringing opportunities to its residents, and that with this growth we are environmentally sustainable, and resilient to the effects of climate change. A move towards a low carbon, cleaner economy and a greener landscape will help Southampton to grow and evolve as a modern, healthy and attractive place to live, work and do business. Due to the nature of these activities, some extend well beyond 2025.

Red	Recovery plan required
Amber	At risk
Green	On track

What are we doing?	Q2	Q4	Current direction of travel	Comments
Sustainable energy and carbon reduction	G	G	Worsening	COVID-19 continues to affect some specific areas in relation to engagement and internal pressures. However, positive progress in areas such as the Natural Environment continues following the appointment of a new staff member to progress the Green Grid and other biodiversity work. Clarification is being sought on mechanisms for delivery of carbon reduction measures in commercial property and Housing. This is required following the Government's withdrawal of Salix Finance, and switching management of the Green Homes grant by SW Energy Hub. Consultation on the National Waste Prevention Programme etc has started, providing some clarity on likely direction and timescales for this theme. Partnership with SW Water to deliver a city-wide water efficiency campaign is underway. A review of key contracts including the implications of the Social Value and Green City Procurement policies is underway, and awareness amongst officers is being raised via account managers. The vacancy filled for a Green City Officer will offer additional resource in the coming months to develop work streams in waste and fleet.
Delivering clean air	G	G	Stable	
Our natural environment	A	G	Improving	
Resources, waste and water management	A	A	Improving	
Sustainable active travel	G	G	Stable	

Place shaping



Delivering a city for future generations. Using data, insight and vision to meet the current and future needs of the city

We want to build on Southampton's unique waterfront location and excellent transport links to continue to grow the local economy. Bringing investment into the city will increase employment opportunities for local people. We want to make sure that Southampton is a place that our residents are proud of, that develops to meet the changing demands of the modern world, and remains a great place to live, work and visit.

Red	Recovery plan required
Amber	At risk
Green	On track

What are we doing?	Q2	Q4	Current direction of travel	Comments
Local Plan	G	G	Stable	We are on track to adopt the Local Plan by December 2022.
Mayflower Quarter Masterplan	A	A	Stable	The draft Masterplan report has been received despite COVID-19 having an impact on engagement activity. A detailed programme has been developed to lead up until the formal adoption of a supplementary planning document in 2022.
Local Transport Plan	G	G	Stable	On track
Future of work	A	G	Improving	<p>Projects have been reviewed in light of COVID-19 to ensure a boost to economic recovery efforts and a strong foundation for the Economic and Green Growth Strategy:</p> <ul style="list-style-type: none"> • Cities of Learning project underway focusing initially on developing a skills framework for the city and horizon scanning the city's economic future • The development of Southampton's Smart City model (known as Intelligent City) will be delivered through a series of planned workshops between May and September 2021 • Recruitment of a Digital Engagement Manager is in progress. This is a new role focusing on digital inclusion, digital skills, and digital transformation of SMEs • Pilot project to support SMEs adopt digitisation is in progress and expected to finish in Autumn 2021
Southampton Pound and Social Value	G	G	Stable	The Social Value and Green City Procurement Policy is now embedded in procurement processes. Contract Procedure Rules were amended in February 2021 to require at least 2 local quotes (where possible) above £5k. Social Value-focused working with current and new suppliers regarding what social value means to SCC and how they can contribute.

Wellbeing

Start well, live well, age well, die well; working with partners and other services to make sure that customers get the right help at the right time.

Working with partners to deliver the ambitions set out in the five-year Health and Wellbeing Strategy, this area looks at wellbeing across the city, with a focus on adults and children's social care, education and public health. We work closely with partners to help safeguard vulnerable people across the city. We are focused on delivering a strong customer experience across both the Adults and Children & Families services. We want Southampton to be a city that is recognised for its proactive approach to preventing problems and intervening early, as well as being a 'Child Friendly City' where children and young people have great opportunities and an aspiration to achieve. We want our residents to have the information and support they need to lead safe, active, healthy lives and to be able to live independently for longer.

Red	Recovery plan required
Amber	At risk
Green	On track

What are we doing?	Q2	Q4	Current direction of travel	Comments
Expanding St Mark's school	G	G	Stable	St Marks School project is still on schedule for completion of classrooms for use by September 2022.
Tackling child hunger	A	A	Stable	The 'Feed the Future' scheme is running to plan for those schools where the need is highest. All schools, early years settings and colleges received their allocation of vouchers over Christmas, which was extended for the first week of term due to lockdown. Utility support for those families identified by schools was also offered over the Christmas period, in the form of prepay vouchers. Food vouchers for the holidays ran for the two weeks over Easter and the Utilities fund ran until 31 of March 2021.
Transforming adults social care	A	A	Improving	Phase one of the service improvement programme across Adult Social Care has been completed and a road map for development has been established. Work is now progressing to phase 2 with senior management structure changes being implemented to support the required service redesign. The implementation of CareDirector remains a fundamental component to support improved working practices, particularly in relation to the recording of activity to support improved monitoring and planning moving forward.
Children and Young People's specialist resource hub	A	A	Stable	Work on establishing the service improvement plan is progressing, with services for vulnerable adolescents and children at risk of entering care identified as key cohorts within the scoping and development of the offer; alongside the implementation of the local residential provision, which is also moving forward after a period of delay.
Better case management	R	A	Improving	We are investing in new technology (CareDirector) to improve the way we record, manage and use information to help us provide the best care for the children, adults and families in our city who need it. Because of the efficiencies that CareDirector will bring, more time can be spent with those who need our support. COVID-19 has impacted overall progress and whilst risks remain around timescales, revised delivery plans have now been agreed for 'go live' later in 2021.

Successful, sustainable business

Building sustainable, agile and flexible services, with people who have the capacity, capability and confidence to adapt to and drive changing environments

Focused on improving our organisation, working with colleagues and trade unions to create a great place to work with efficient, easy to use systems making sure we keep costs low, develop growth, and deliver a great customer experience. Having strong support services is critical to achieving our ambitions for the city.

Red	Recovery plan required
Amber	At risk
Green	On track

What are we doing?	Q2	Q4	Current direction of travel	Comments
Improving the customer experience	G	G	Stable	Over the last year we have been focused on improving the customer service experience despite the challenges we've faced. We've supported a steady improvement in performance of customer operations, reducing the average speed of answer to 100 seconds. The increased productivity meant we were able to set up and run our COVID-19 resident and business helplines throughout the pandemic without impacting our essential services. We have taken 7,453 customer calls on our resident help line from the start of the pandemic. Alongside this our Gateway and contact centre staff phoned over 8,000 elderly residents to check on their wellbeing whilst continuing to support business as usual activity. We have also made strong progress upgrading the systems through which customers access our services as part of a continuous improvement programme.
Innovation & efficiencies	N/A	A	Improving	The majority of the work was necessarily paused due to resources being redirected to support COVID-19 activities. Work has continued to progress on defining the data programme and identifying processes to review as part of the process and streamlining project. Primary risks are around ensuring appropriate resourcing and scoping of the programmes to enable effective delivery.
Working differently	A	A	Improving	Due to the impacts of COVID-19, The Way We Work programme has had to be reshaped. Good progress has been made on some key parts of the programme which have enabled the organisation and employees to work effectively during the pandemic. This has included the rapid roll out of Microsoft 365 including Teams to enable virtual meetings and collaboration. An all-staff survey is currently live, seeking the views of all employees on future ways of working which will inform the detailed design of the programme.
People development	A	G	Improving	To help develop knowledge, skills and behaviours and better meet customer needs, we have provided 438 learning sessions during 2020/2021. Most of these were virtual, with 3,599 people participating, some being foster carers, child minders and external carers. Children and Learning are launching an Academy for learning and Adult Social Care have focused on priority learning activity in early 2021. In the recent Employee Survey, 73% of respondents say they can access the learning and development needed for their job.
Absence management	A	G	Improving	As with many organisations, having more people working remotely has led to a stronger focus. With working from home there has been a greater focus on employee wellbeing with resources available on the staff intranet and the implementation of a new Occupational Health system. Regular manager sessions are being run by the HR teams providing advice and support to managers on managing attendance and regular reviews of sickness data. Overall, average sickness days are now below the public sector average.

Agenda Item 8

DECISION-MAKER:	Governance Committee
SUBJECT:	Annual Governance Statement
DATE OF DECISION:	26 th July 2021
REPORT OF:	COUNCILLOR HANNIDES CABINET MEMBER FOR FINANCE AND CAPITAL ASSETS

<u>CONTACT DETAILS</u>			
Executive Director	Title	Executive Director for Finance and Commercialisation and Section 151 Officer	
	Name:	John Harrison	Tel: 023 8083 4897
	E-mail	john.harrison@southampton.gov.uk	
Author:	Title	Risk & Insurance Manager	
	Name:	Peter Rogers	Tel: 023 8083 2835
	E-mail	peter.rogers@southampton.gov.uk	

STATEMENT OF CONFIDENTIALITY	
None	
BRIEF SUMMARY	
<p>In accordance with the Accounts and Audit Regulations the Council is required to conduct a review, at least once a year, of the effectiveness of its system of internal control and to prepare a statement on internal control in accordance with proper practices. The purpose of the Annual Governance Statement ('AGS'), which is published with the Statement of Accounts ('SoA'), is to provide an accurate representation of the corporate governance arrangements in place during the year and to identify or highlight those areas where there are significant gaps or where improvements are required</p>	
<p>In accordance with CIPFA Guidance, Audit [Governance] Committees should be provided with early sight of a draft of the AGS noting that the final version will be signed as part of the SoA.</p>	
RECOMMENDATIONS:	
	(i) To review the draft 2020-21 AGS (Appendix 1); and
	(ii) To note the status of the 2019-20 AGS Action Plan (Appendix 2).
REASONS FOR REPORT RECOMMENDATIONS	
1.	The Governance Committee has responsibility to provide independent assurance on the adequacy of the risk management framework and the internal control and reporting environment, including (but not limited to) the reliability of the financial reporting process and the annual governance statement.

2.	In terms of good governance, it is also appropriate for the Committee to be provided with information and assurance regarding the status of the actions identified on the previous year's AGS
ALTERNATIVE OPTIONS CONSIDERED AND REJECTED	
3.	No alternative options have been considered. The development and publication of an AGS is a requirement under the Accounts and Audit Regulations.
DETAIL (Including consultation carried out)	
4.	Regulation 6 (1) of the Accounts and Audit (England) Regulations 2015 requires that the relevant body must conduct a review at least once a year of the effectiveness of its system of internal control and to prepare a statement on internal control in accordance with proper practices.
5.	The purpose of the AGS, which is published with the SoA, is to provide an accurate representation of the corporate governance arrangements in place during the year and to identify or highlight those areas where there are significant gaps or where improvements are required.
6.	The AGS is produced following a review of the Council's governance arrangements. The review requires the systems and processes that comprise the Council's corporate governance arrangements to be brought together and reviewed.
7.	The key elements of this assurance gathering process comprise completion of an 'Assurance Framework' document together with 'AGS - Self Assessment Statements'. Both the documents cover the key processes and systems that comprise the Council's governance arrangements noting that the latter are completed by Heads of Service and signed off by the respective Executive Director.
8.	The draft AGS has been developed by the council's 'Controls Assurance Management Group' which comprises the Section 151 Officer, Chair of the Governance Committee (at the time), Monitoring Officer, Executive Director Business Operations and the Chief Internal Auditor. This Group reflects CIPFA/Solace guidance whereby "authorities should nominate an individual or group with appropriate knowledge, expertise and levels of seniority to evaluate the assurances and supporting evidence provided and draft the AGS".
9.	The format of the AGS is aligned with CIPFA/SOLACE guidance and is largely unchanged from the previous year which reflects that it is aligned with good practice and noting that the external auditors review the AGS for completeness of disclosures, consistency with other information from their work and whether it complies with relevant guidance. They did not identify any areas of concern and this was reflected in their 'Annual Audit Results Report for the year ended 31 March 2020'.
10.	It is a requirement that the AGS is current at the time of publication noting that for this year final approval of the Statement of Accounts is moved to 30th September 2021. The section in the draft AGS regarding the 'Impact of the Covid-19 Pandemic on Governance' will therefore need to be drafted later in the year in order to reflect the position at the time. The wording on the current

	version of the draft AGS reflects this and refers to the issues that will need to be considered.
11.	The draft AGS was presented and reviewed by the Executive Management Board on 14 th April 2021.
12.	The final draft AGS will be presented to the Governance Committee for approval at the meeting on 27 th September 2021. The AGS will then be required to be signed by both the Leader of the Council and the Chief Executive.
RESOURCE IMPLICATIONS	
<u>Capital/Revenue</u>	
13.	None
<u>Property/Other</u>	
14.	None
LEGAL IMPLICATIONS	
<u>Statutory power to undertake proposals in the report:</u>	
15.	The Accounts and Audit (England) Regulations 2015, as amended by the Accounts and Audit (Coronavirus) (Amendment) Regulations 2020 require that the Council must each financial year conduct a review of the effectiveness of the system of internal control and prepare an AGS for approval by a committee or members of the authority. The AGS must be approved in advance of the relevant authority approving the statement of accounts.
<u>Other Legal Implications:</u>	
16.	None
RISK MANAGEMENT IMPLICATIONS	
17.	Failure to develop and publish an AGS would be non-compliance with the Accounts and Audit Regulations.
POLICY FRAMEWORK IMPLICATIONS	
18.	None

KEY DECISION?	No
WARDS/COMMUNITIES AFFECTED:	Not applicable
<u>SUPPORTING DOCUMENTATION</u>	
Appendices	
1.	Draft Annual Governance Statement 2020-21
2.	2019-20 Annual Governance Statement – Action Plan
Documents In Members' Rooms	
1.	n/a
Equality Impact Assessment	

Do the implications/subject of the report require an Equality and Safety Impact Assessment (ESIA) to be carried out.		No
Data Protection Impact Assessment		
Do the implications/subject of the report require a Data Protection Impact Assessment (DPIA) to be carried out.		No
Other Background Documents		
Other Background documents available for inspection at:		
Title of Background Paper(s)	Relevant Paragraph of the Access to Information Procedure Rules / Schedule 12A allowing document to be Exempt/Confidential (if applicable)	
1.	n/a	

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SCOPE OF RESPONSIBILITY

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

In discharging this overall responsibility, the council is responsible for putting in place proper arrangements for the governance of its affairs, and facilitating the effective exercise of its functions, which includes arrangements for the management of risk.

The council has approved and adopted a Code of Corporate Governance that is consistent with the principles of the ‘Delivering Good Governance in Local Government: Framework (CIPFA/Solace, 2016). A copy of the code is on our website at:

<http://www.southampton.gov.uk/council-democracy/corp-governance/>

or can be obtained from the:

Service Director – Legal and Business Operations
Southampton City Council,
Civic Centre,
Southampton,
SO14 7LY

This statement explains how the council has complied with the or local code and also meets the requirements of the Accounts and Audit (England) Regulations 2015, Regulation 6(1), which requires all relevant bodies to prepare an annual governance statement.

THE PURPOSE OF THE GOVERNANCE FRAMEWORK

The governance framework comprises the systems and processes, cultures and values by which the council is directed and controlled and its activities through which it accounts to, engages with and leads its communities. To demonstrate compliance with the principles of good corporate governance, the council must ensure that it does the right things, in the right way, for the right people, in a timely, inclusive, open, honest and accountable manner.

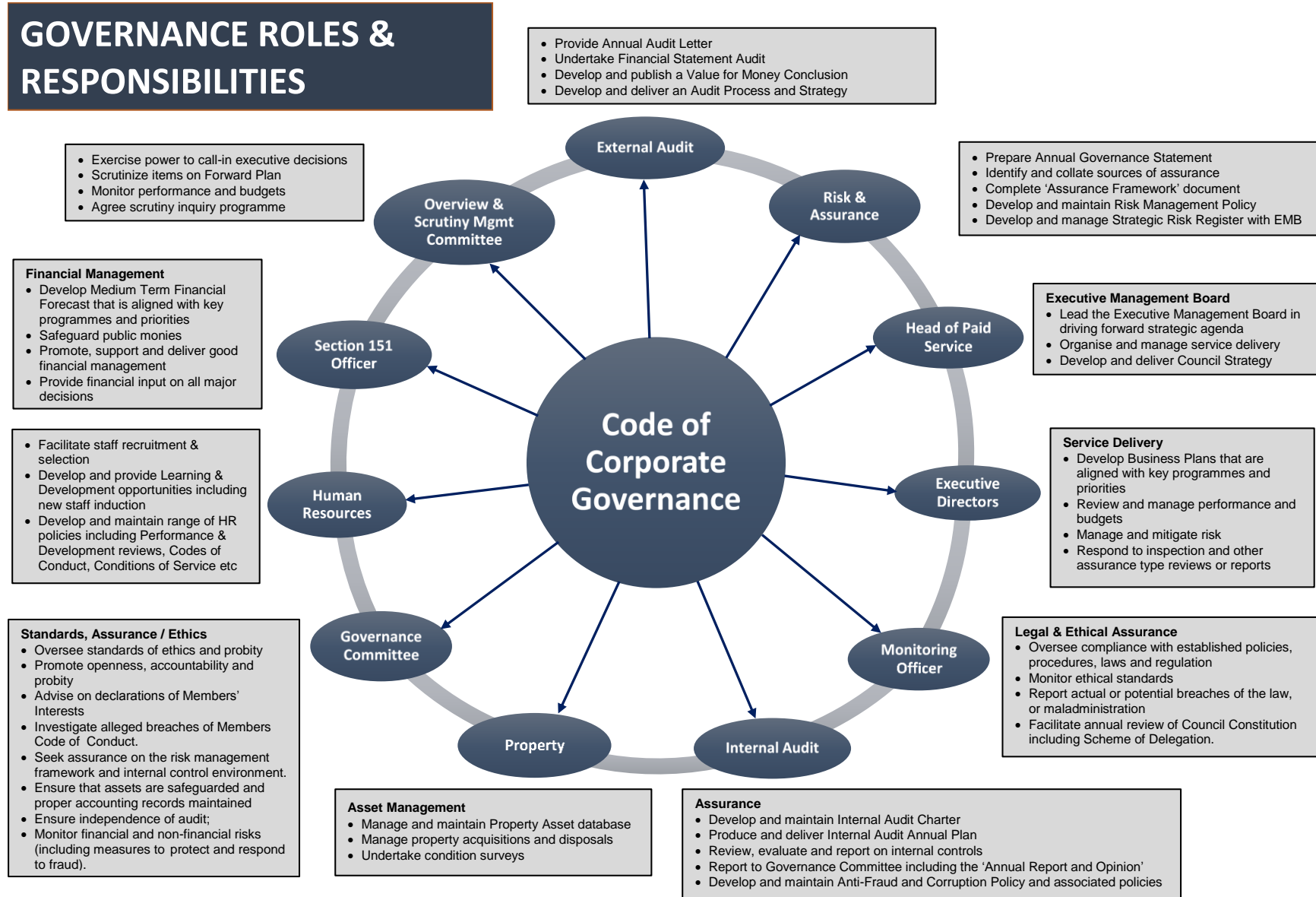
Good governance is crucial as it leads to good management, good performance, good stewardship of public money, good public engagement and ultimately good outcomes for citizens and service users. Further, good governance enables an authority to pursue its aims effectively whilst controlling and managing risk.

The system of internal control is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the council’s policies, aims and objectives, to evaluate the likelihood and potential impact of those risks being realised, and to manage them efficiently, effectively and economically.

The governance framework has been in place at the council for the year ended 31st March 2021 and up to the date of approval of the statement of accounts.

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GOVERNANCE ROLES & RESPONSIBILITIES



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The Governance Framework

The fundamental function of good governance is to ensure that the council achieves its intended outcomes while acting in the public interest at all times. The following core, high level, principles in Sections A to G reflect the 7 core principles of good governance in the public sector are derived from the 'Delivering Good Governance in Local Government: Framework (CIPFA/Solace, 2016)'.

Impact of the Covid-19 Pandemic on Governance

NOTE: As per the 2019-20 AGS, the 2020-21 AGS is also expected to include a section that summarises the 'impact of the Covid-19 Pandemic on Governance'. It is a requirement that the AGS is current at the time it is published noting that for 2020-21 the date for publication of audited accounts is 30th September 2021. By default, this section, which will be informed by the following CIPFA guidance/prompts, is not therefore able to be completed until later in the year.

"An organisation's governance arrangements are likely to have been impacted by Covid-19. The list does not include all the sub-principles in the Framework but attempts to highlight key challenges:

- *Reduced capacity*
- *Competing priorities*
- *Constraints resulting from home / remote working*
- *Ensuring covid-19 restrictions are maintained e.g. social distancing*
- *Financial constraints*

As a result, gaps might have been created in an organisation's normal governance arrangements. Some changes may not be significant, especially where it has proved possible to adapt.

- *Are we aware of how Covid-19 has impacted our governance arrangements and our ability to fulfil the principles of good governance?*
- *What adaptations have been made? Are these effective?*
- *Providing local leadership on compliance with Covid regulations to maintain public trust and respect for the rule of law*
- *Determining the wider public interest associated with balancing conflicting interests between achieving the various economic, social and environmental benefits. For example, supporting local public health and the local economy are both and challenging objectives that will have been difficult to balance. Medium and long term resource crucial planning aimed at developing a sustainable funding strategy. This is likely to have been particularly challenging this year.*
- *Ensuring continued effectiveness in the use of assets. Vision and strategy for asset management might have been affected by changed patterns of working impact on office accommodation. Also, town centre and commercial property potentially affected.*
- *Ensuring arrangements are in place to maintain the health and wellbeing of the workforce and support individuals in maintaining their own physical and mental wellbeing. This is likely to have taken greater prominence this year.*
- *Ensuring the adequacy of financial controls – especially where new services have been introduced or significantly changed in the year*
- *Gaining assurance on risk associated with service delivery by partners. This area might have been affected by impact of the pandemic on partners etc.*
- *Ensuring the effective delivery of local elections"*

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A. Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law.

The council's Constitution sets out how the council operates, how decisions are made and the procedures which are followed to ensure that these are efficient, transparent and accountable to local people. Some of these processes are required by the law, while others are a matter for the council to choose. The Constitution is divided into 15 Articles which set out the basic rules governing the council's business. The Constitution is published on the council's website at:

<http://www.southampton.gov.uk/council-democracy/meetings/council-constitution.aspx>

The Constitution includes both Officers' and Members' Codes of Conduct which set out the expected behaviour and standards to be adhered to. In addition, there is a Code of Conduct for Employees which states the standards of conduct and behaviour expected of them in the course of their employment and where this extends into activities and interests outside of work.

The Service Director: Legal and Business Operations is the Monitoring Officer and has responsibility for ensuring compliance with established policies, procedures, laws and regulation, and reporting any actual or potential breaches of the law, or maladministration, to full Council and/or to Cabinet.

As part of the council's 'Leadership and Management' training an Ethical Leadership module was developed in 2020/21 and formally launched in 2021/22 with all manager and leaders encouraged to attend. The module explores the seven principles of public life and values and behaviours that underpin these.

A 'Whistleblowing Policy' (Duty to Act) is in place and published on the council's website. Whistleblowing is a way for employees to raise reasonably and honestly held concerns they may have about serious matters that could put the council and/or the wider public at risk. Whistleblowing usually involves bringing forward concerns that it is in the public interest to investigate and resolve. Examples are fraud, the giving or taking of bribes, financial malpractice, or practices that might endanger individuals or the environment.

As part of the commitment to safeguard public funds there is an 'Anti-Fraud, Bribery and Corruption Policy' that applies to any actual or suspected internal or external fraud, bribery, corruption and dishonest dealing that involve the council and or its Members and staff. It also applies to contractors, suppliers, partners, agents, intermediaries and service users. The council also has in place an 'Anti-Money Laundering' policy which sets out the expectations and responsibilities of both officers and Members in respect of preventing criminal activity through money laundering. This policy details the procedures that must be followed (for example reporting of suspicions of money laundering activity) to enable the council and staff to comply with their legal obligations.

Investigations and special reviews into suspected fraud or irregularities are overseen by an 'Investigation Steering Panel', comprising the Monitoring Officer, Chief Internal Auditor, Section 151 Officer (Chief Finance Officer) and the Service Director - Human Resources & Organisational Development.

The council takes any complaint that it receives seriously and has processes to ensure that every complaint is dealt with fairly and investigated and responded to as quickly as possible. The council welcomes hearing customers' comments, compliments, and complaints to better understand how they view our services and to use these valuable opportunities to learn and improve for the future. There is a Corporate Services and Adult Social Care 'Customer Comments, Compliments and Complaints Policy' published on the council's website which explains how to make a complaint and how it will be dealt with. There is also a separate 'Children's Services Complaint Procedure' which is also published on the council's website. Complaints relating to Members are dealt with under the Members' Code of Conduct.

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The council's 'Social Value and Green City Procurement Policy' reflects a commitment to proactively work to ensure that all goods, works and services that it procures are sourced ethically and sustainably; both in the way the Council procures and in terms of the standards that the Council expects its suppliers, service providers and contractors to meet.

B. Ensuring openness and comprehensive stakeholder engagement

The council supports the principle that people should have the opportunity to voice their opinions on issues that affect them. The views of customers are at the heart of the council's service delivery arrangements and are actively sought. The council's website includes a 'Have your say' section which provides information to residents, customers and other stakeholders on how they can 'have their say' on various issues using:

- Consultations
- Surveys and research
- E-Petitions
- Comments, compliments and complaints
- Have your say at meetings

Where appropriate, public consultation is used to seek the views of residents and stakeholders. For example, A public engagement exercise was undertaken with residents and stakeholders on the draft budget proposals between 16th December 2020 and 19th January 2021. The aim of this engagement exercise was to:

- Communicate clearly to residents and stakeholders the budget proposals for 2021/22;
- Ensure any resident, business or stakeholder who wished to comment on the proposals had the opportunity to do so, enabling them to raise any impacts the proposals may have; and
- Allow participants to propose alternative suggestions for consideration which they feel could achieve the objectives in a different way.

Southampton City Council, in conjunction with other local public service providers, also undertakes a 'City Survey' every two years to collect resident views on a range of topics. This provides an opportunity to get views of a representative sample of Southampton residents on key / priority issues and to gain better understanding of perceptions on how we are doing as a council and as a city. The surveys also include a set of common Local Government Association questions which allows Southampton to be benchmarked against the national average and for trends to be tracked over time. Full results are available on the Southampton Data Observatory: <https://data.southampton.gov.uk/> The latest survey ran between October 2020 and December 2020 and included questions on:

- Opinion on the local area
- Opinion on Council and other public services
- Communications and Digital exclusion
- Employment
- City of Culture bid
- Transport
- Wellbeing

In addition, four 'Covid-19 Residents Surveys' were undertaken in 2020 and were intended to provide both the council and other agencies across the city with an understanding of how residents were interpreting national guidance, how the pandemic was impacting residents' lives, and concerns that residents may have had during this time. This feedback was used to support the local response and to aid recovery efforts across the city.

The council has in place a 'People's Panel' which now has a membership of over 3,200 people and is open to anyone over the age of 18 to join. This Panel comprises a group of residents who take part in

Annual Governance Statement

surveys and other opportunities to express their views on council services, health services and living in the city. Run by Southampton City Council and with support from the University of Southampton, the People's Panel has been active since 2015 and the results from surveys have been used to inform a number of decisions and service changes.

In order to understand the demographic makeup of People's Panel, members are asked questions like age, gender, ethnicity and this information may be used to target engagement activities to certain groups in the city. On all wider engagement and consultation exercises, the demographic breakdown of respondents is reviewed to help ensure they are representative of Southampton residents and to identify where further targeted communications may be appropriate.

There is a strong focus on youth participation in the city with 'Youth Forum Southampton' providing opportunity for young people to influence how services are delivered, highlight issues that that need to be reviewed and to help shape public services for the community. The 'Southampton Speak Up! - Children and Young People's Participation Strategy 2016-2020' is also intended to provide children and young people with 'a voice and a choice' explains how young people can get involved to help make the city a better place. Elections have also been held for Southampton's own Member of Youth Parliament who is now in place.

C. Defining outcomes in terms of sustainable economic, social, and environmental benefits

The Southampton City Council Corporate Plan 2020-2025 ('Corporate Plan') sets out how the council will achieve its vision of Southampton as a city of opportunity. The Corporate Plan is being delivered through detailed business plans, delivering on key initiatives and working positively with partners. Underpinning this is work to support the council as a sustainable organisation, increasing commercial opportunities to generate income, and ensuring that the council is both solid in its financial position and flexible enough to identify important trends and respond to a changing environment. With the goals of creating a greener, fairer, healthier place, and in an environment of continuous change. The Corporate Plan has five key themes to address the opportunities and challenges the city faces over the next five years and beyond.



Progress in respect the commitments, initiatives and priorities is monitored, reviewed and updated on a six-monthly basis. The updated document is reviewed by both the council's Executive Management Board and Cabinet and is then published on the council's website. In addition, progress against the

Annual Governance Statement

major Programmes and Projects within the Corporate Plan is also presented to the council's Governance Committee every 6 months.

To achieve the council's priority outcomes employees are expected to demonstrate the council's organisational values. These reflect the importance that the council places on behaviours, and the way that employees engage with customers, partners and colleagues:



There are a number of key strategies, policies and plans which impact on both the direction of the council and the day to day operations as follows:



There are also other key strategies that reflect the vision and ambition of both the city and wider region including the Southampton City Strategy (2015-2025) which is a partnership strategy that sets out the vision for the whole city. Southampton Connect is responsible for the delivery of the Southampton City Strategy with the vision that Southampton is a city of opportunity where everyone thrives. Southampton Connect is an independent partnership which brings together senior city representatives seeking to address the key challenges and opportunities for Southampton and working with the city's key partners to improve the outcomes of the people of Southampton.

At a sub-regional level delivery of key outcomes and priorities are achieved through the Partnership for South Hampshire ('PfSH'), the Solent Local Enterprise Partnership ('LEP') and Solent Transport.

PfSH is a collaborative partnership working arrangement between the twelve South Hampshire local authorities, Hampshire County Council plus the Southampton and Portsmouth Unitary Councils. PfSH is focused on supporting economic growth, delivery of housing, the infrastructure to achieve this

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development, in a sustainable manner to maintain and enhance the quality of the environment. PFSH engages with a range of other local organisations, stakeholders and Government to achieve these aims

The Solent LEP is a locally-owned partnership between businesses and local authorities and plays a central role in determining local economic priorities and undertaking activities to drive economic growth and the creation of local jobs. The Board of the Solent LEP is democratically elected by its members, who are drawn from the area's key business, education and local authorities. On a wider basis, working with Local Authority partners, has seen the creation of the Solent Leaders Forum, further strengthening joint working and collaboration across the area. In 2019 a new Solent LEP geography was created now extending further westwards to encompass the whole of the New Forest. In 2021 the Solent LEP will develop a new future facing strategy called Solent 2050.

Solent Transport is a sub-regional transport partnership composed of: Portsmouth, Southampton, the Isle of Wight and Hampshire County Council. It was created in 2007 as Transport for South Hampshire and was rebranded to Solent Transport in 2014. Solent Transport and its partner bodies are important members of Transport for the South East (TFSE). The partnership creates a platform for joint working, standards and partnership leading to innovation, excellence and parity in transport provision across the Solent Transport area. The partnership works strategically with private industry, key stakeholders and other agencies to deliver transport infrastructure, networks and systems crucial to keep the region moving and generate economic growth, wealth and sustainability.

D. Determining the interventions necessary to optimise the achievement of the intended outcomes

The council has in place a robust decision-making process that clearly sets out the actions and accountability in terms of who, when and how decisions are taken and where responsibility for decisions making rests. All decision reports are required to be submitted using a standard report template which identifies the 'Decision Maker', the decision or action required, why the report is recommended, alternative options considered together with a 'Detail' (including Consultation carried out) section. The template also includes separate sections detailing any Financial/Resource, Legal, Risk and Policy implications. Where appropriate these comment on how proposals will be paid for, the statutory power to undertake the action and/or relevant legislation that affect the proposals, any significant risks associated with the decision that need to be considered and that confirmation that the proposals are in accordance with the council's approved Policy Framework. Report authors are required to consult with relevant departments as part of the preparation and development of a report. This will always include Democratic Support, Corporate Legal and Finance but may also include Property, IT etc if the proposals within the draft report are relevant to these areas. All decision reports are signed off by the relevant Executive Director and Cabinet Member.

The council's Overview and Scrutiny Management Committee ("OSMC") manages the council's overview and scrutiny process which includes scrutinising items on the council's Forward Plan and exercising the power to call-in executive decisions, agreeing the scrutiny inquiry programme and monitoring performance and budgets, Scrutiny provides the role of the "critical friend" to the decision makers and assists in policy development, drives improvement in public services and enables the voice of the public to be heard. There are a number of Scrutiny Panels that support the work of the Executive and the council as a whole. The Scrutiny Inquiry Panel carries out a work programme of scrutiny inquiries approved by the OSMC. In addition, the Health Overview and Scrutiny Panel undertakes the statutory scrutiny of health and adult social care agencies in Southampton, and the Children and Families Scrutiny Panel scrutinises services for children and families in the city, including education.

Due to Covid-19 all scrutiny meetings were held remotely with members of the public able to view meetings live via the Council's website. To enable public engagement interested residents or groups were invited to submit questions in writing in advance of the committee or panel meeting. At the discretion of the Chair, members of the public or stakeholder groups who have expressed an interest in contributing on a specific agenda item were invited to attend the virtual scrutiny meeting to contribute

Annual Governance Statement

to the discussion. In addition, scrutiny inquiries continue to consider written evidence and members of the public, community groups, or other key stakeholders can write in to bring evidence to the attention of the Inquiry Panel members.

E. Developing the entity's capacity, including the capability of its leadership and the individuals within it

The council has in place a Workforce Strategy which is intended to enable the council to develop its current and future workforce with the right skills, competencies and behaviours to deliver services. The Workforce Strategy sets out a high-level vision, priorities and outcomes to develop and nurture a motivated and effective workforce who will deliver the council's priorities. The priority outcomes delivered by the Workforce Strategy will be:

- Recognised as an employer of choice;
- A high performing workforce;
- Good management across the council;
- Evidenced based decision making, planning and delivery;
- A highly motivated and engage workforce;
- Staff empowered to make decisions;
- An effective Member Development programme for councillors; and
- Demonstrable valuing of diversity and equality.

The Workforce Strategy is a key document that sits alongside the both the Medium-Term Financial Forecast, the Wellbeing Strategy and the Customer Strategy and takes account of challenges in relation to the overall council budget. It is used to inform resource allocation decisions, organisational development and business planning, drive positive change and the delivery of agreed outcomes.

The council also has in place a Workplace equalities policy which reflects the council's long-standing commitment towards the elimination of discrimination and the achievement of equality of outcomes for residents, communities and staff as reflected in our published priorities and organisational values. The policy reaffirms the council's commitment to eliminate discrimination in all that we do and help achieve equality of opportunity and outcomes for our staff and the communities it serves. New initiatives under this broad umbrella include a specific focus for 2021 onwards on Diversity and Inclusion with priorities set by staff workshops

F. Managing risk and performance through robust internal control and strong public financial management

The council's Governance Committee has responsibility to provide independent assurance on the adequacy of the risk management framework and the internal control and reporting environment and the integrity of the financial reporting and annual governance statement process. The Governance Committee undertakes the core functions of an audit committee and operates in accordance with CIPFA guidance. It receives a range of periodic reports relating to both the internal control environment and financial management including receiving the draft Statement of Accounts. The Committee receives an annual Risk Management Report that summarises the framework and arrangements in place to manage risk and is intended to provide the Committee with both information and assurance regarding how risk is managed. This includes reference to the council's 'Risk Management Policy' that sets out the framework, arrangements and responsibilities in respect of how risks relating to the delivery of key outcomes and priorities, are identified and managed. This policy is intended to support the application of robust risk management principles and practices across all service areas. There is also a range of associated guidance documents, templates and other tools to support officers in identifying and managing risk.

A key element of the council's risk management framework is the council's Strategic Risk Register which is developed in consultation with Executive Directors. This document reflects the key strategic risks that have been identified as needing to be managed in order to support the delivery of the council's

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key initiatives and priorities. The Strategic Risk Register is updated and reviewed by the Executive Management Team on a quarterly basis and identifies how the individual risks are being managed together with an assessment of the effectiveness of the arrangements in place. An 'exceptions report' identifies any gaps or weaknesses with a requirement that further mitigating actions be developed and actioned as necessary.

Risk management forms an important and integral part of the council's project management methodology with risk registers having been used extensively in respect of managing and supporting the council's response to Covid-19 and including supporting information decision taking.

Effective financial management is key to managing the delivery of a vast range of council services either directly or through/with others and ultimately improving the quality of life for residents. The council's Medium Term Financial Forecast ('MTFF') 2021/22 – 2024/25 provides a strategic financial framework and a forward looking approach to achieve long term financial sustainability for the council. It is central to the delivery of the council's priorities in an affordable and sustainable way over the medium term. It also aids robust and methodical planning as it forecasts the council's financial position taking into account known pressures, major issues affecting the council's finances, including external economic influences as well as local priorities and factors.

The MTFF helps the council to respond, in a considered manner, to pressures and changes as a result of internal and external influences. This is particularly important during a period when the council faces considerable pressures and challenges, such as those relating to the Covid-19 pandemic. The MTFF recognises the key role that financial resources play in the future delivery of priorities and in enabling the effective planning, management and delivery of services. The approach concentrates on the principles that will provide a strong direction for the medium term. The key objectives of the MTFF are to:

- Provide financial parameters within which budget and service planning should take place;
- Ensure that the Council sets a balanced and sustainable budget;
- Focus and re-focus the allocation of resources so that, over time, priority areas receive additional resources. Ensuring services are defined on the basis of clear alignment between priority and affordability;
- Ensure that the Council manages and monitors its financial resources effectively so that spending commitments do not exceed resources available in each service area;
- Plan the level of fees, charges and taxation in line with levels that the Council regard as being necessary, acceptable and affordable to meet the Council's aims, objectives, policies and priorities whilst gradually reducing the Council's reliance on Central Government funding; and
- Ensure that the Council's long term financial health and viability remain sound.

The MTFF enables integrated service and financial planning over the medium term, using a business planning approach. The resulting Medium Term Financial Model provides the framework within which decisions relating to future service provision can be made.

The Chartered Institute of Public Finance and Accountancy ("CIPFA") has published a new Financial Management Code for authorities to adhere to. The CIPFA Financial Management Code 2019 (FM Code) is designed to support good practice in financial management and to assist local authorities in demonstrating their financial sustainability. The FM Code sets out the standards of financial management for local authorities, based on broad principles. It does not prescribe the financial management processes that local authorities should adopt but requires each authority to demonstrate that its processes satisfy the principles of good financial management. 2020/21 was the 'shadow' year for the implementation of the FM Code with the first year of compliance being 2021/22. Future budget updates to both Cabinet and Council will indicate how the processes adopted by the council ensure compliance with the standards set out in the Code.

As part its preparations for embedding enhanced standards of financial management the council undertook a self-assessment against the new FM Code in order to identify any significant gaps or areas

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for development. The conclusion of the self-assessment was that the council broadly operates within the expected principles, however a few areas to further strengthen our processes were identified such as ensuring the senior management team (the Executive Management Board) were up to date with the work on financial resilience and how Southampton compares with other council's and that the Financial Procedure Rules were fully up to date. The necessary areas for improvement will also be tabled at the Executive Management Board for discussion and the plan monitored for its implementation.

The council's financial management arrangements conform to the governance requirements of the CIPFA 'Statement on the Role of the Chief Financial Officer ("CFO") in Local Government. The CFO (the Executive Director for Finance and Commercialisation and Section 151 Officer) is professionally qualified and is a key member of the Executive Management Team and reports directly to the Chief Executive. The CFO is actively involved in, and able to bring influence to bear on, all material business decisions to ensure immediate and longer term implications, opportunities and risks are fully considered, and alignment with the council's overall financial strategy. The CFO is also responsible for leading, directing and ensuring that the finance function is fit for purpose.

The council has in place 'Business Plans' at service level that are aligned with the council's priorities and outcomes as set out in the Corporate Plan. The business plans provide an overview of the services being delivered together with the outcomes (and outputs) that are looking to be achieved. The council undertakes an annual business planning and budgeting process with all Service Business plans required to be reviewed to ensure that they reflect changing circumstances, methods of service provision, impact on the budget and the needs of customers. An important part of the process is the 'sustainability/challenge' sessions that focus, in particular, on current and future service costs including opportunities for income growth.

All significant commercial partnership working arrangements also have a range of performance indicators which are used to monitor, verify and manage service performance. The council is committed to achieving best value from its contracts and ensuring that goods, services and works are procured, and contract managed in the most efficient and effective way throughout the lifecycle of the contract. Regular review meetings are held with key suppliers in order to ensure that contracts remain fit for purpose. Contract Management Teams in the Supplier Management Team and the Integrated Commissioning Unit support the council in managing contracts throughout the lifecycle of the contract and provide senior management interfaces between the council and our partnership service providers.

G. Implementing good practices in transparency, reporting, and audit, to deliver effective accountability

The council is committed to openness and transparency and publishing as much council data as it can in order to increase accountability. The 'Council Data' page on the council's website allows the public to access a wide range of information and data that is published in accordance with the Local Government Transparency Code (2015).

The council's Constitution sets out how decisions are made and makes specific reference to decision making by Full Council, by the Executive (Cabinet), by Overview and Scrutiny Committees, other committees and sub-committees established by the council and by council bodies acting as tribunals. The Constitution also includes an Officer Scheme of Delegation which sets out the powers and functions that are delegated to named Council Officers. The compilation of a Register of Delegated Powers is a statutory requirement and is maintained by the Service Director: Legal & Business Operations.

The council produces a Forward Plan of all Key Decisions which are proposed to be taken within the next four months (updated monthly 28 clear days prior to scheduled Cabinet meetings on a rolling basis). Other decisions are also included where practicable to assist in providing public transparency and confidence in decision making. All agendas and minutes of meetings in respect of Council, Cabinet, Overview and Scrutiny, Non-Executive Committees and statutory boards and published on the council's website.

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The council's assurance arrangements conform to the governance requirements of the CIPFA 'Statement on the Role of the Head of Internal Audit in public service organisations (2010)' noting that an updated version of the document was published by CIPFA in April 2019. This updated statement mirrors the Public Sector Internal Audit Standards and is embedded in the Internal Audit Charter & Code of Ethics. The Head of Internal Audit (Chief Internal Auditor) is professionally qualified and is responsible for reviewing and reporting on the adequacy of the council's internal control environment, including the arrangements for achieving value for money.

The Chief Internal Auditor has direct access to the Chief Executive, and to the council's Monitoring Officer where matters arise relating to Chief Executive responsibility, legality and standards. Where it is considered necessary to the proper discharge of internal audit function, the Chief Internal Auditor has direct access to elected Members of the Council and, in particular, those who serve on committees charged with governance (i.e. the Governance Committee).

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 led by a 'Controls Assurance Management Group' comprising the Executive Director for Finance and Commercialisation and Section 151 Officer, Chair of the Governance Committee, Executive Director Business Services, Service Director – Legal & Business Operations (Monitoring Officer) and the Chief Internal Auditor.

The review process, applied in respect of maintaining and reviewing the effectiveness of the system of internal control, is informed by: -

- The views of Internal Audit regularly reported to Governance Committee via the 'Internal Audit: Progress Report' which includes executive summaries of new reports published and highlights any comments. The Committee is able to request any director to attend a meeting to discuss the issues.
- The views of external auditors, regularly reported to the Governance Committee, including regular progress reports, the Annual Audit Letter and Audit Results Report.
- The Chief Internal Auditors 'Annual Report and Opinion' on the adequacy and effectiveness of the council's internal control environment: The Chief Internal Auditor's opinion for 2020-21 was that a 'limited assurance' opinion was given on the effectiveness of the arrangements relating to the framework of governance, risk management and control at Southampton City Council. The results of the work carried out in 2020/21 show that the level of 'limited reviews' have decreased from the previous year which would indicate that improvements are continuing, and that the effectiveness of the internal control environment is therefore improving. This is a positive indicator despite the overall assurance level of 'limited' that has been attributed to this year.
- The Internal Audit Charter and delivery of the annual Internal Audit plan but noting that the Audit Plan of assignments was reduced compared to the previous year to reflect the level of resource lost during 2020-21 due to the impact of Covid and the temporary redeployment of some audit staff during this period. The reduction was based on a re-evaluation of the risk level of the activity and an assessment of the requirements of the Council and its immediate priorities.
- The work of the Chief Executive, Executive Directors and Service Directors who have responsibility for the development and maintenance of the control and governance environment;
- The completion of 'AGS Self-Assessment Statements' that cover the key processes and systems that comprise the council's governance arrangements and are intended to identify any areas where improvement or further development is required. The self-assessments are completed by individual Heads of Service or Service Directors on behalf of their service areas in order to ensure that the

Annual Governance Statement

most representative and comprehensive oversight is obtained, with the individual returns being signed off by the relevant Executive Director.

- Completion of an 'Assurance Framework' document which reflects the key components of the council's overall governance and internal control environment. This document, based on CIPFA/SOLACE guidance, records the key controls in place, and sources of assurance, and identifies any significant gaps or weaknesses in key controls;
- The independent views of regulatory inspection agencies such as Ofsted and the Care Quality Commission;
- The annual report on Risk Management and including the Risk Management Policy and Strategic Risk Register;
- The work of the Governance Committee in relation to the discharge of its responsibility to lead on all aspects of corporate governance.

We have been advised on the implications of the result of the review of the effectiveness of the governance framework by the Governance Committee, and that the arrangements continue to be regarded as fit for purpose in accordance with the governance framework. The areas already addressed and those to be specifically addressed with new actions planned are outlined below.

SIGNIFICANT GOVERNANCE ISSUES

The following significant governance issues have been identified:

1. Governance Issue

The council's response to the Covid-19 Pandemic has tested both overall organisational resilience as well as the resilience within individual service areas. In respect of the latter it is recognised that, particularly in areas where specialist technical or professional advice is provided, there is reliance on a limited number of key individuals. In part, this is also reflected in the inconsistency in respect of the extent to which succession planning has been formally considered within individual service areas across the council.

Planned Action: Heads of Service to work with their 'Human Resources Business Partner' to fully understand the tools available to develop and have in place appropriate service resilience and succession planning arrangements. The activity may be informed by information and data such as re workforce age profile, grading, structures etc. in order to identify key areas, activities or 'pinch points' where focussed attention is required.

Responsible Officer: Directorate Management Teams with the support of their respective HR Business Partner

Target Date for completion: End Q4 2021-22 (with position reflected on the 21-22 AGS Self-Assessment returns)

2. Governance Issue

As part the preparations for embedding the enhanced standards of financial management reflected in new CIPFA Financial Management Code 2019 for 2021-22, the council undertook a self-assessment against the new Code in order to identify whether there were any significant gaps or areas for further development. The conclusion of the self-assessment was that the council broadly operates within the expected principles, however some areas to further strengthen existing processes were identified.

Planned Action: The necessary areas for improvement to be tabled at the senior management team (Executive Management Board) for discussion and the plan monitored for its implementation.

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Responsible Officer: Executive Director for Finance and Commercialisation and Section 151 Officer

Target date for completion: End Q3 2021-22

3. Governance Issue

It is recognised that as a large complex organisation that delivers over 700 services there is an ongoing challenge to ensure consistency in terms of staff (both new and existing) awareness, understanding and compliance and with key policies, process and procedures.

Completed Action (End Q1 – 2021): The 'Performance and Development review' guidance that is published on the intranet now has a link that takes you through to a list of mandatory training (elements of which will vary according to the individuals' role). The list of mandatory training includes information governance, buying for the council, whistleblowing, anti-fraud and corruption etc.

Planned Action: An 'Ethics and Values' training module, which forms part of a new 'Collaborative Leadership Programme', has been developed. This module, which is targeted at all team leaders and managers below senior level, explores the council's organisational values and ethics and looks at key council policies and frameworks. Managers through interactions as part of the 'Performance Management and Development Framework' and 'one to one' supervision meetings will be required to determine who should attend this training.

Responsible Officer: Directorate Management Teams

Target date for completion: End Q4 2021-22 re Ethics Module training (with position reflected on the 2021-22 AGS Self-Assessment returns)

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

Signed

.....
Sandy Hopkins
Chief Executive

.....
Councillor Dan Fitzhenry
Leader of the Council

on behalf of Southampton City Council

2019-20 AGS – Significant Governance Issues: Status Report

The following is a summary of the status of the agreed actions that were identified to address the significant governance issues were identified and recorded on the Council's Annual Governance Statement 2019-20:

1. Governance Issue	Planned Action	Status	Comments
<p>An important part of both the 2020-25 corporate business planning process and the council's Workforce Strategy is the requirement for service areas to identify and consider future organisational development requirements and including the resilience of the service and, in particular, succession planning. This is however an area where further actions are required within service areas in terms of having in place formal/ informal succession plans noting that the 2019 Resources Review, which saw the reorganisation of council's senior management, resulted in some areas of experience exiting the organisation and gaps opening in skills levels or resilience.</p>	<p>Work during the first coronavirus lockdown looked at skills survey for staff against critical services with Business Plans updated to reflect this. Lessons learned from lockdown period to be pulled together through EMB to help understand key skills issues and identify any gaps.</p>	<p>In progress</p>	<p>The exercise to review the lessons learned from the initial lockdown period were superseded by work that was focused on redeployment planning for the 2nd wave of the pandemic which, by necessity, focused on skills and requirements in this context.</p> <p>As the council moves into the Covid 'recovery phase' the Directorate Management Teams, with the support of their respective HR Business Partner, will refocus on this issue, as reflected in the draft 2020-21 AGS actions. Key service reviews are already in train across Adults, Children's and proposals in draft for Property Services.</p>
2. Governance Issue	Planned Action	Status	Comments
<p>A resourcing review of the council's top 50 management posts was undertaken in 2019. This 'Resources Review' was designed to ensure that the organisational structure was aligned with the five key strategic themes, agreed with Council in July 2019, to address the opportunities and challenges the city faces over the next five years and beyond. Associated with this process was the creation of a new reporting hierarchy comprising the 'Executive Management Team (Executive Directors and Chief Executive), Senior Leadership Team (Service Directors and Heads of Service), Leadership Team (including service managers).</p>	<p>New organisational structure to be in place 1st April 2020</p>	<p>Completed</p>	<p>All Senior posts were recruited to by the end of 2019 with all new postholders and organisational structures in place 1st April 2020</p>

2019-20 AGS – Significant Governance Issues: Status Report

During this process it was necessary for interim postholders to be in place and/or appointed to certain senior management posts whilst the appointment and recruitment process was undertaken and completed.

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3. Governance Issue	Planned Action	Status	Comments
<p>Lack of consistent adherence and compliance by officers to policies such as Employee Gifts & Hospitality and Registration of Outside Interest, and Travel and Subsistence. The AGS self-assessment returns indicate that there are still pockets across the Authority that are unfamiliar with the required arrangements and declarations that should be completed.</p> <p>This position was also supported with the results of the follow-up Internal Audit review for, Ethics, where agreed actions had been delayed. The actions outstanding are regarding staff awareness/ registration and the need to update the policy.</p>	<p>Policies to be reviewed and refreshed, where necessary, and communicated to relevant staff.</p>	<p>Completed</p>	<p>Policies were communicated and an HR policy group was established to review and update policies. This group meets regularly and has a policy schedule for updating all policies – horizon scanning ensures any changes to legislation are addressed promptly.</p> <p>A second ‘follow up’ Internal Audit report issued in September 2020, focussed on awareness of, and compliance with, the Registration of Outside Interest Policy and the Gifts and Hospitality Policy, showed an improved position with an assurance level of ‘Reasonable’.</p>
4. Governance Issue	Planned Action	Status	Comments
<p>An agreed process has been developed whereby Internal Audit provides a periodic report to the council’s Executive Management Team in respect of ‘follow up’ reviews on any ‘limited’ or ‘no assurance’ audit reports. This is in terms of seeking to prompt or ensure, on a consistent basis, that the agreed management actions have been implemented or otherwise satisfactorily progressed. This is reflected in the Chief Internal Auditors Annual Report and Opinion</p>	<p>Revised reporting arrangement to be developed and built into the revamped performance reporting framework for the Executive Management Team.</p>	<p>Completed</p>	<p>Full implementation of this process, which commenced in February 2020, was adversely impacted by Covid 19. The Corporate reporting dashboard was however introduced in July 2020 with all key governance reporting (Information Governance, Internal Audit & Risk) at quarterly meetings from January 2021.</p>
5. Governance Issue	Planned Action	Status	Comments
<p>In order to manage the council’s performance effectively the council’s revised Senior Management Team needs to review monitoring reports regularly.</p>	<p>Both the Council Plan and performance outcomes were revised for the Corporate</p>	<p>Completed</p>	<p>As per the above, the Corporate reporting dashboard was introduced in July 2020 with Performance, together with all key</p>

2019-20 AGS – Significant Governance Issues: Status Report

	Plans to conclude a new regular comprehensive monitoring report, and the planned regular reviews of performance at a corporate level, have been disrupted by the Resource Review, which introduced a new senior management structure and team, and the response to the COVID pandemic.	Business Plan 2020 – 2025 (approved in Feb 2020) with a comprehensive monitoring approach, including finance, workforce, audit, health and safety and performance matters to be developed.	governance areas, being reported at the same quarterly meetings from January 2021. The process and format continue to be refined.	
6.	Governance Issue (c/f from 2018-19)	Planned Action	Status	Comments
	Whilst a number of actions have been implemented in order to improve officer compliance with the council's procurement policies it was considered to be too soon to for assurance to be provided that they have been fully effective in terms of modifying behaviours. The intention was that, as part of the 2019/20 Internal Audit Annual Plan, an audit review would look to obtain evidence and assurance of modified officer behaviours in respect of compliance with procurement policies.	The Internal Audit review of 'Contract Framework and Procurement', was originally scheduled for March 2020 but had to be deferred to 2020/21 due to the impact of Covid-19.	Completed	The Internal Audit review of 'Contract Framework and Procurement' report was issued in Q4 20-21 and concluded that 'Reasonable Assurance' could be placed on the arrangements in place.

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DECISION-MAKER:		GOVERNANCE COMMITTEE	
SUBJECT:		DRAFT STATEMENT OF ACCOUNTS 2020/21	
DATE OF DECISION:		26 JULY 2021	
REPORT OF:		EXECUTIVE DIRECTOR FOR FINANCE, COMMERCIALISATION & S151 OFFICER	
<u>CONTACT DETAILS</u>			
AUTHOR:	Name:	Stephanie Skivington	Tel: 023 80832692
	E-mail:	Stephanie.Skivington@southampton.gov.uk	
DIRECTOR:	Name:	John Harrison	Tel: 023 80834897
	E-mail:	John.Harrison@southampton.gov.uk	
STATEMENT OF CONFIDENTIALITY			
NOT APPLICABLE			
BRIEF SUMMARY			
<p>The Government amended the statutory timetable for completing and publishing the 2020/21 annual accounts (and those for 2021/22) in response to one of the recommendations made following the Redmond Review. The draft Statement of Accounts 2020/21 was signed by the Executive Director for Finance, Commercialisation & S151 Officer on 14 June 2021. This is earlier than the revised statutory requirement to have the unaudited accounts signed by the 31 July 2021. A copy of the draft unaudited Statement of Accounts is available in the Members' Room.</p>			
<p>The annual audit, carried out by our auditors Ernst & Young LLP, commenced on 5 July 2021 and is due to be completed in September 2021. Any major changes to the Statement of Accounts arising from the annual audit are expected to be reported to the 27 September 2021 Governance Committee after the completion of the audit.</p>			
RECOMMENDATIONS:			
	(i)	Notes that the draft Statement of Accounts 2020/21 has been signed by the S151 Officer and is now brought to Committee for comment.	
	(ii)	Notes that the audited Statement of Accounts 2020/21 is expected to be presented to the Committee on 27 September 2021 for approval.	
REASONS FOR REPORT RECOMMENDATIONS			
1.	It is a legal requirement that the S151 Officer signs the draft Statement of Accounts by 31 July 2021 and certifies that it presents 'a true and fair view of the financial position of the authority at the end of the year to which it relates and of the authority's income and expenditure for that year'.		
2.	The draft Statement of Accounts has been brought to the July committee in order to give members plenty of opportunity and time to comment on them before final approval, which is expected to take place in September. It is envisaged that the September report will detail any non-trivial amendments made as a result of the audit along with an amended Statement of Accounts (if necessary). A full report on the 2020/21 outturn position was presented to Cabinet on 19 July 2021.		

ALTERNATIVE OPTIONS CONSIDERED AND REJECTED	
3.	The Statement of Accounts has been prepared in accordance with statutory requirements. No other options have been considered as it is a legal requirement that the draft Statement of Accounts is prepared and signed by the S151 Officer no later than 31 July 2021.
DETAIL (Including consultation carried out)	
	REVISED STATUTORY TIMETABLE
4.	<p>The Accounts and Audit Regulations 2015 set out detailed requirements in relation to local authority annual audit and accounting processes.</p> <p>The report on Sir Tony Redmond's independent review into the oversight of local audit and the transparency of local authority financial reporting was published in September 2020. One of the recommendations in that report was for the deadline for publishing audited local authority accounts be revisited with a view to extending it to 30 September from 31 July each year. In its response to the Redmond Review, the government agreed to amend regulations to extend the deadline for publishing audited local authority accounts from 31 July to 30 September, for a period of two years (i.e. covering the audit of the 2020/21 and 2021/22 accounting years). At the end of this period the government intends to review whether there is a continued need to have an extended deadline.</p> <p>The Accounts and Audit (Amendment) Regulations 2021 amend the 2015 Regulations to extend the deadlines for local authorities to publish and make available for public inspection, their annual accounts and supporting documents in relation to the financial years beginning on 1 April 2020 and 2021. These amendments extend the deadline for publishing the audited statement of accounts for 2020/21 and 2021/22 to 30 September. The period for the exercise of public rights must commence on or before the first working day of August. This effectively means the unaudited accounts must be prepared and signed by the S151 Officer and published on the Council's website by 31 July. The requirement for the public inspection period to include the first 10 working days of June has also been removed for the annual accounts for the years beginning on 1 April 2020 and 2021.</p>
	STATEMENT OF ACCOUNTS
5.	The Statement of Accounts is a complex document and the layout and information provided are defined by statutory requirements. The key issues that should be drawn to the attention of Committee are detailed below.
	ACCOUNTING AND OTHER POLICIES
6.	The Council's accounts are prepared in accordance with the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice on Local Authority Accounting in the UK, which is recognised by statute as representing proper accounting practice and meets the requirements of the Accounts and Audit Regulations 2015.
7.	<p>The Accounting Policies are described in detail on pages 35 to 48 of the Statement of Accounts and cover such items as:</p> <ul style="list-style-type: none"> • Property, Plant and Equipment

	<ul style="list-style-type: none"> • Employee Benefits • Financial Instruments • Grants and Contributions • PFI contracts <p>There has been one significant change to the Accounting Policies in 2020/21 outlined below.</p>
8.	The Local Authorities (Capital Finance and Accounting)(England) (Amendment) Regulations 2020 establish new accounting practices in relation to the treatment of schools budget deficits such that where a local authority has a deficit on its schools budget relating to its accounts for a financial year beginning on 1 April 2020, 1 April 2021 or 1 April 2022, it must not charge the amount of that deficit to a revenue account. Instead the deficit (including the accumulated deficit as at 31 March 2020) is charged to a new unusable reserve the Dedicated Schools Grant (DSG) Adjustment Account. This means the DSG deficit is no longer included within the earmarked revenue reserves balance.
9.	The accounting policies adopted by the Council are in line with the CIPFA Code of Practice on Local Authority Accounting and the Governance Committee would therefore be more likely to be interested if the Council were to depart from the recognised practice.
10.	The accounts include estimates and assumptions as at 31 March 2021. As with every year, there is a risk of material adjustment to the carrying amounts of some assets and liabilities within the next financial year, however with the continued uncertainty surrounding the impact of the COVID-19 pandemic the risk remains heightened this year. Further details are provided in Note 4 of the accounts (page 50).
	COVID-19
11.	The Council has received additional grant funding as part of the government's response to the COVID-19 pandemic, some to cover the Council's own expenditure/income shortfalls and some for passing on to local businesses, social care providers and individuals. Judgements have been made about whether the Council is acting on behalf of the government in administering the grants (agent) or whether it is acting in its own right (principal). Where the Council is acting as principal the grant receipts have been recognised as income and associated payments as expenditure. Where the Council is acting as agent the grant receipts and corresponding payments are not accounted for as income or expenditure. Further details of COVID-19 grant funding are provided in Note 37 (page 108).
12.	The accounting arrangements for business rates income mean that the loss for rate reliefs introduced by the government in 2020/21 to support particular business sectors during the pandemic will be charged to the General Fund in 2021/22 as part of the deficit on the Collection Fund being recouped in future years. However, the Council received government grant funding in 2020/21 to compensate for this loss. This additional grant funding has been transferred to reserves to be used in 2021/22 to make good the shortfall and does not represent additional resources available to the Council to spend on service provision.

13.	Further details relating to COVID-19 are provided in the Narrative Statement on pages 22 to 24 and in Note 6 (page 53).
2020/21 OUTTURN	
14.	The Narrative Statement provides a summary of the revenue and capital financial performance for the year on pages 13 to 20. Full details of the outturn position are available in the Revenue and Capital Outturn 2020/21 report to Cabinet on 19 July 2021.
RESOURCE IMPLICATIONS	
<u>Capital/Revenue</u>	
15.	The capital and revenue implications are considered as part of the outturn report that was presented to Cabinet on 19 July 2021.
<u>Property/Other</u>	
16.	There are no specific property implications arising from this report.
LEGAL IMPLICATIONS	
<u>Statutory power to undertake proposals in the report:</u>	
17.	Accounts and Audit Regulations 2015 and the Accounts and Audit (Amendment) Regulations 2021.
<u>Other Legal Implications:</u>	
18.	None
RISK MANAGEMENT IMPLICATIONS	
19.	Not Applicable
POLICY FRAMEWORK IMPLICATIONS	
20.	Not applicable. It should be noted that the Statement of Accounts is prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting in the UK 2020/21.
KEY DECISION?	Yes/No
WARDS/COMMUNITIES AFFECTED:	All
<u>SUPPORTING DOCUMENTATION</u>	
Appendices	
1.	None
Documents In Members' Rooms	
1.	Draft Unaudited Statement of Accounts 2020/21.
Equality Impact Assessment	
Do the implications/subject of the report require an Equality and Safety Impact Assessment (ESIA) to be carried out.	Yes/No
Data Protection Impact Assessment	
Do the implications/subject of the report require a Data Protection Impact Assessment (DPIA) to be carried out.	Yes/No

Other Background Documents	
Other Background documents available for inspection at:	
Title of Background Paper(s)	Relevant Paragraph of the Access to Information Procedure Rules / Schedule 12A allowing document to be Exempt/Confidential (if applicable)
1.	None

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2020/21
DRAFT FINANCIAL STATEMENTS



STATEMENT OF ACCOUNTS

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Introduction to the Statement of Accounts by Councillor John Hannides, Cabinet Member for Finance

As Cabinet Member for Finance for Southampton City Council, I am very pleased to be able to present to you the Statement of Accounts for 2020/21.

The authority provides a diverse range of services to its residents. These services include (among others) Adults Social Care, Children's Social Care, Schools, Refuse Collection and Waste management, Leisure, Libraries, Housing Services (including the provision of around 15,900 houses and flats within the Housing Revenue Account), Car Parking, Environmental Health, Economic Development, Planning and Development Control and many more which support our families, communities, and businesses.

The last financial year has been an exceptional one and has placed major pressure on many of our public services, including the Council. During 2020/21, the Council has needed to prioritise its focus onto the Coronavirus pandemic threat we all face and swiftly re-focus resources to ensure our residents and communities have the maximum support we can provide. I wish to express my sincere thanks to all our staff for their work and dedication during this most difficult of years.

Additional financial support from central government assisted the Council in meeting the financial impact arising from the pandemic. Further funding support came in different guises. For example, there was also considerable funding support to business impacted by the pandemic, which came from Government but flowed through the Council acting as an agent to ensure businesses received help with their business rates or financial support during period of lock down. There were many other initiatives the Council was at the heart of, including operating emergency food hubs, supporting the care market, providing Covid safe home to school transport and applying a £150 discount from council tax for those entitled to claim local council tax support (with assistance from Government funding). You will find more detail on these and other measures referenced below showing how the Council has carried out this work as a part of these Statement of Accounts.

The Council faces a continued challenge with the pandemic crisis and also an environment of where the costs and demands on our services are growing each year and resources are finite. The effects of the pandemic also brings uncertainty over future costs and funding for the authority, but I am confident based on how well our staff have met these challenges to date that the authority will continue to meet these challenges into the future on behalf of all our local residents. The pandemic has presented a 'once in a hundred year' challenge to us, but Southampton Council will continue to be well placed to support all our residents as we emerge from this crisis in the coming weeks and months.

NARRATIVE STATEMENT

Message from the Executive Director for Finance, Commercialisation & S151 Officer, John Harrison

The purpose of this publication is to present the statutory financial statements for Southampton City Council covering the period 1 April 2020 to 31 March 2021. The statements can be technical and complex, but where possible we have presented them as simply as we can, and I would recommend reading the narrative statement for an overview of the authority's financial position for the year.

At the February 2020 Council meeting a very robust budget for 2020/21 was set, as well as financial plans for the following two years with financial resilience very much in mind. Management of risk and promoting financial resilience was a key principle behind the budget strategy and this has helped facilitate the council in being fully able to respond and help our residents and their communities during the pandemic crisis, which has dominated the financial year. My priority during 2020/21 has therefore been to ensure that the Finance Service provided efficient and effective support to the Council in all its efforts to combat and contain the effects of the Covid-19 pandemic, whilst still continuing to support the delivery of members' vision and deliver the priorities agreed by councillors.

Across the Council, staff have been called on to support efforts to help against the impact of the pandemic. Examples from my own Finance staff are given below, and further examples from across the Council are supplied within section 5:

- Administering a variety of funds from Government provided in support of local businesses to assist in coping during the various stages of lockdown. This has included significant grant allocations for many businesses in the Retail, Hospitality and Leisure sector, among others.
- Administering the scheme to provide £150 off the council tax bill for 2020/21 for those eligible within the Local Council Tax Support Scheme.
- Supporting a successful bid to the National Leisure Recovery Fund and award of £0.61M will significantly reduce the Council's financial liabilities to the service providers for our leisure contracts
- Tracking the financial impact of the pandemic on the council in order to submit monthly returns to Government highlighting the financial cost and preparing claims to Government covering lost revenue from sales fees, charges income when much lower than budgeted for.
- Acquiring and managing approx. £0.3M for personal protective equipment (PPE) usage.
- Responded sympathetically and helpfully for all those in genuine need and who were unable to pay sums owed to the Council, recognising the financial challenges arising from the current crisis and supporting people to manage their debts to the council.
- Advised on how to support many of our contractors and suppliers during difficult times, to ensure the council recognised their financial difficulties and ensure they were treated as sympathetically as possible.
- Responded quickly, decisively and effectively to the financial risks to the Council's golf provider as a result of the pandemic and to take control of the situation and the management of the course by negotiating exit arrangements and terminating the contract
- At the outset of the lockdown, aimed to pay our suppliers as soon as possible to aid their cashflow, in line with government guidance.

More generally, the Council ensured that all of our emergency response services including Housing Operations, Street Lighting and Highways continued to operate throughout the pandemic to ensure our customers, staff and the general public were kept safe and the Council's assets were safeguarded.

More detail on the Council's overall response to the pandemic crisis is included in the narrative below. The Council has coped with the pandemic whilst maintaining its delivery of good value services and has

NARRATIVE STATEMENT

done this whilst delivering overall spending less than allowed for within the agreed total budget as supplemented by various streams of Government financial support to help meet this unprecedented challenge.

The financial information below shows a sum of £8.6M being underspent for the 2020/21 financial year which has been taken to reserves and will help meet future council priorities as Southampton emerges from the lock down and supports our management of future risks.

I would like to express my sincere and genuine thanks for all staff in my Finance team who have made every effort to play their part in the Council's efforts to support our communities during the pandemic, against a background of much increased demand for our services and the difficulties presented by very challenging ways of working forced on to us by the pandemic.

2020/21 was year two of the Chartered Institute of Public Finance and Accountancy (CIPFA) new financial resilience index for local authorities. The index can be used as a tool to compare against other groupings of authorities but is only a starting point for analysis and in itself should not be relied on for conclusions. Some key points from the index were:

- SCC was considered to be at the lower end of the risk spectrum for measures for reserves in comparison to both unitaries and its 'nearest neighbours' comparator authorities (those with similar characteristics).
- However, for the Housing Revenue Account (HRA), the council was shown as being towards the higher end of risk. This was on the basis of comparing reserves with that held as at 31/03/2017, (a 33% reduction). The HRA reserve policy is to hold £2M and given no change recently to this balance and forward projections show this balance being maintained, it is not considered a major risk.
- On the relative proportion spent in Adult Social Care – which is led by demand and statutory requirements to meet client needs – Southampton was towards the higher end of risk. However, a key part of budget planning has been to recognise the financial stress faced by the authority with these services and ensure a robust budget to cater for rising demand pressure with a risk reserve specifically for social care provision set aside of around £7.4M.
- Southampton City Council has less reliance on fees and charges income and therefore less exposure to loss from the pandemic.

As well as giving the highest priority to the on-going response to the pandemic, Finance staff have also been working to improve our core financial systems. Work is progressing with the new financial management system (Business World) introduced in late 2019 to maximise the benefits from the system and its reporting capability as enhancing the supporting financial systems. A new method of recording, monitoring and tracking the council's revenue has been developed, called Income Manager, the full benefit of which will be felt in 2021/22 through much more automated recording of council income reducing the need for expensive manual intervention and reducing errors.

I have structured this narrative statement to help enable readers to understand the Council, its operating environment, and to assist in the understanding and interpretation of the Statement of Accounts.

It should be noted that all local authorities are required to publish an Annual Governance Statement including highlighting any significant changes. The Annual Governance Statement is included in Section 8 on page 123.

The Council reviews annually any interest in companies and other entities for any financial relationships which would require the Council to produce group accounts. In 2020/21 there were no material transactions that require this. Note 36 on page 105 provides further information.

NARRATIVE STATEMENT

The sections contained within the Narrative Statement are:

1. Key Facts about Southampton
2. Key Facts about Southampton City Council
3. A summary of the financial performance
4. An explanation of the statement of accounts
5. Accounting issues & developments

Looking ahead, the Authority faces very significant financial uncertainty which will make service and financial planning even more challenging than usual. The continued uncertainty over the on-going impact from the pandemic is a major factor, and how service spending and loss of income to the council will continue to affect the financial strain on the council. Coupled with that, the economic impact from the pandemic on local businesses as well as the local labour market will also feed into the funding the council can expect as its major funding streams are inextricably linked with the health of the local economy.

Government has supported all local authorities during the pandemic via a mixture of specific and general grants. In addition, there has been a scheme to compensate for a major element of lost income from sales fees and charges and for meeting a degree of the losses arising from reduced council tax and business rates. Uncertainty still remains over the medium to long term financial impact from Covid but any rapid economic 'bounce-back' this will help strengthen the council's finances.

More generally, Government has not pre-announced any future financial settlement for 2022/23, nor any Spending Review for the course of public finances as a whole for after 31 March 2022. Changes are still anticipated to arise for local authority funding from the overhaul of the business rate retention scheme which funds a major part of all local authority income as well as the Fair Funding Review, which is the mechanism that will be applied to balance the respective relative need to spend of each authority, based on various demographic and geographical factors. The long-awaited green paper on funding for Adult Social Care is also still to be published.

The financial outlook for the council was published at the time of the February 2021 Council meeting as part of the budget papers for the current financial year (2021/22). The Medium Term Financial Forecast contained within that report highlighted a budget shortfall of £22.5M for 2022/23, rising to £27.3M in 2023/24. These projections include assumptions about the effects of Covid-19 and will remain under constant review as the impact from the Government vaccine programme and the road map of emerging from the lock down status emerges. I am confident that with work already underway to close this financial gap that the authority can maintain good financial health going forward.

We will continue to err on the side of prudence with planning the finances of the Council, ensuring robust plans are in place to cater for future risks, including the potential for the pandemic to have a continuing impact on council finances. The emphasis will be on delivering efficient and effective services over the long term, based on long term thinking to ensure sustainable finances. We must deliver a realistic and balanced budget each year, but we know only so much can be done by reducing budgets and restructuring services. We will therefore continue the work to place an emphasis on developing our 'commercial' offer to both strengthen our ability to raise income and to become more self-reliant as the optimal way to meet our financial challenges in the longer term.

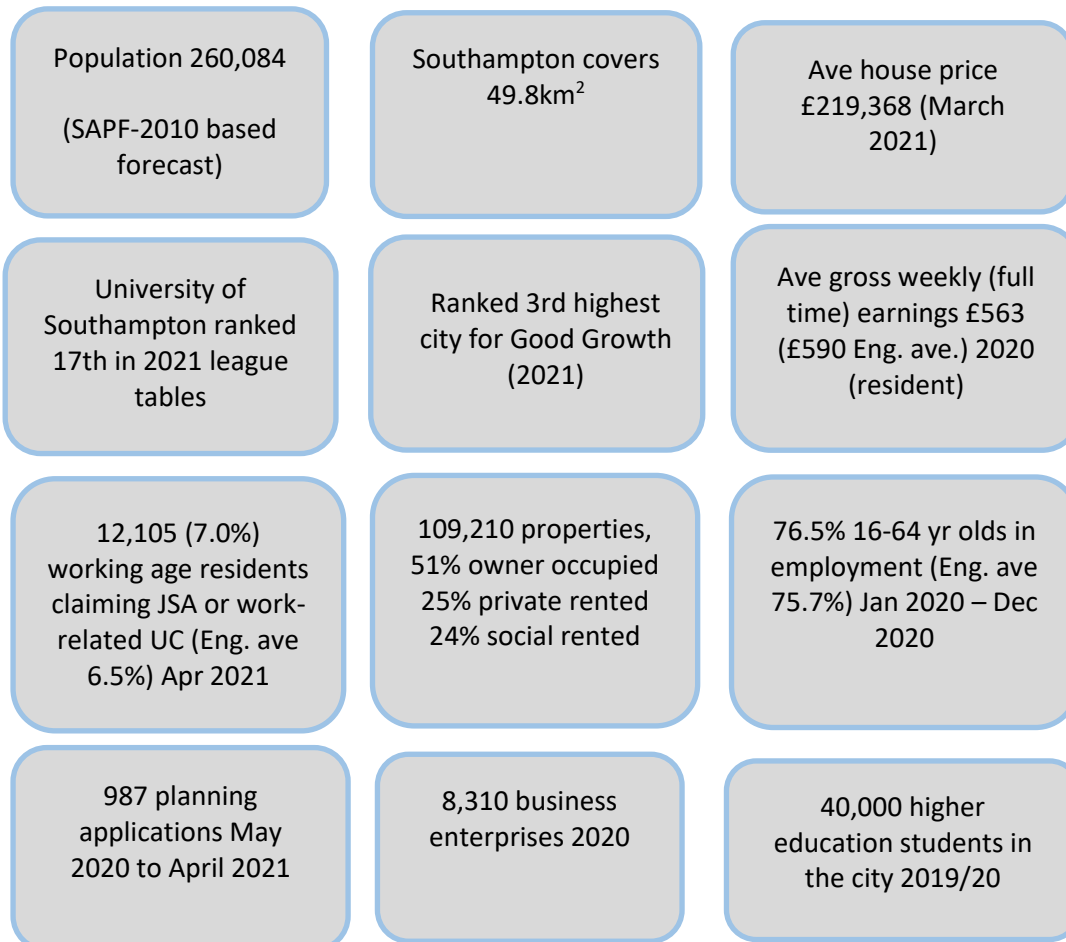
1. KEY FACTS ABOUT SOUTHAMPTON

Southampton has a unique sea city location with exceptional transport links, a strong position nationally for economic growth, an excellent reputation for teaching and learning, a strong business community, good regional specialist hospital, varied retail offer, night-time economy, vibrant voluntary and student communities and a rich and diverse cultural mix.

NARRATIVE STATEMENT

There are a number of factors which affect the Council's services and its finances. Detailed below are some of the key facts and figures having a major impact on the Council's financial position in both the short and medium term:

Key Statistics



Sources: Department for Work and Pensions (DWP), Office for National Statistics, Hampshire County Council, Annual Population Survey, Land Registry, PWC, and BRES.

Council related statistics

- We maintain over 416 miles of highways and 53 parks and over 147 other green spaces and 75 eco areas "managed for wildlife" which cover over 95 hectares
- We also maintain 97 play areas, 24 Multi use games areas, 6 Skateparks and 7 Tennis courts and a mini-golf course
- We have 55,000 recorded Council trees (estimated 267,000 within total urban forest) and 290 hectares of woodland
- The trees are worth £1.3 million each year in ecosystem services they provide to the city and would cost more than £3 billion to replace their benefits in other ways
- We run 6 large libraries in Southampton and work in partnership with community organisations to support 5 more local libraries
- We provide 15,847 council houses
- We recycle, compost and reuse an estimated 26,300 tonnes of waste every year (data over the last 4 years 2016-20)

NARRATIVE STATEMENT

- We provide long-term support for over 2,577 adults over 18
- We work with and support 76 schools in the city
- Nearly 7,000 children under 5 use our city's children's centres (over 14,000 visits per year) and we look after approximately 490 children who are in our care
- Over 1,750 Commercial Waste Customers and approx. 16,000 Garden Waste Customers
- Empty around 130,000 bins from households every week
- Service and maintain nearly 500 vehicles and over 500 pieces of plant and equipment
- We currently have 2,408 people which City Telecare support with telecare devices
- We have about 3,500 supported housing properties which have pull cords available
- The 60+ support service has provided Housing Related Support to over 474 clients during 2020/21 (not all long term – the aim is short term support)
- 1,362 monthly support plans were delivered by Housing Support Workers supporting older vulnerable residents
- We have 389 Extra Care properties in the city
- 3 x Green Flag awards for St. James Park, Riverside Park and the 5 Central Parks (as a collective award)

Southampton City Strategy 2020-25

The Council's Corporate Plan 2020-2025 published in February 2020 sought "to provide for a city that is greener, fairer and healthier; a city of culture that is accessible to everyone. We will continue to develop Southampton as a modern, vibrant and sustainable city to live, work and visit. The city's infrastructure needs to support the economy by reducing congestion, overcoming barriers to jobs and opportunities, improving the environment, and building an infrastructure resilient to change.

Underpinning this is work to support us as a sustainable council, increasing our commercial opportunities to generate income, and ensuring we are both solid in our financial position and flexible enough to identify important trends and respond to a changing environment.

The Council's vision is that Southampton is a City of opportunity, with strategic goals being "Greener", "Fairer", "Healthier". These goals will be delivered through initiatives within the following themes below":



Our organisational values reflect the importance we place on behaviours, and the way we engage with customers, partners and colleagues.



Given the changes to the environment, including local political control, a revised corporate plan will be developed for July 2021.

NARRATIVE STATEMENT

2. KEY FACTS ABOUT SOUTHAMPTON CITY COUNCIL

All of the factors in Section 1 help to shape the Council's priorities and provide a challenging environment for the Council to operate in. Potentially increasing demand on services and reducing the amount of income the Council can generate. Charged with directing the outcomes, priorities and policies of the Council are the 48 elected Councillors. The next section describes the political and management structure of the Council.

Political Structure

Southampton City Council is a unitary authority split into 16 wards each represented by 3 councillors. The expected May 2020 local elections were delayed due to the Covid pandemic, leaving the political structure during 2020/21 as follows:

Labour 30

Conservative 18

Council Executive Management Board

Supporting the work of the elected members is the Council's Executive Management Board (EMB). The makeup of the team at the end of 2020/21 is detailed below. Note 26 shows the further detail of people that have been in a strategic post during 2020/21.

Chief Executive – ***Sandy Hopkins***

Executive Director – Business Services (Deputy Chief Executive) – ***Mike Harris***

Executive Director – Wellbeing (Children and Learning) – ***Robert Henderson***

Executive Director – Communities, Homes and Culture - ***Mary D'Arcy***

Executive Director – Place - ***Kate Martin***

Executive Director – Wellbeing (Health and Adults) – ***Grainne Siggins***

Executive Director - Finance & Commercialisation & S151 Officer – ***John Harrison***

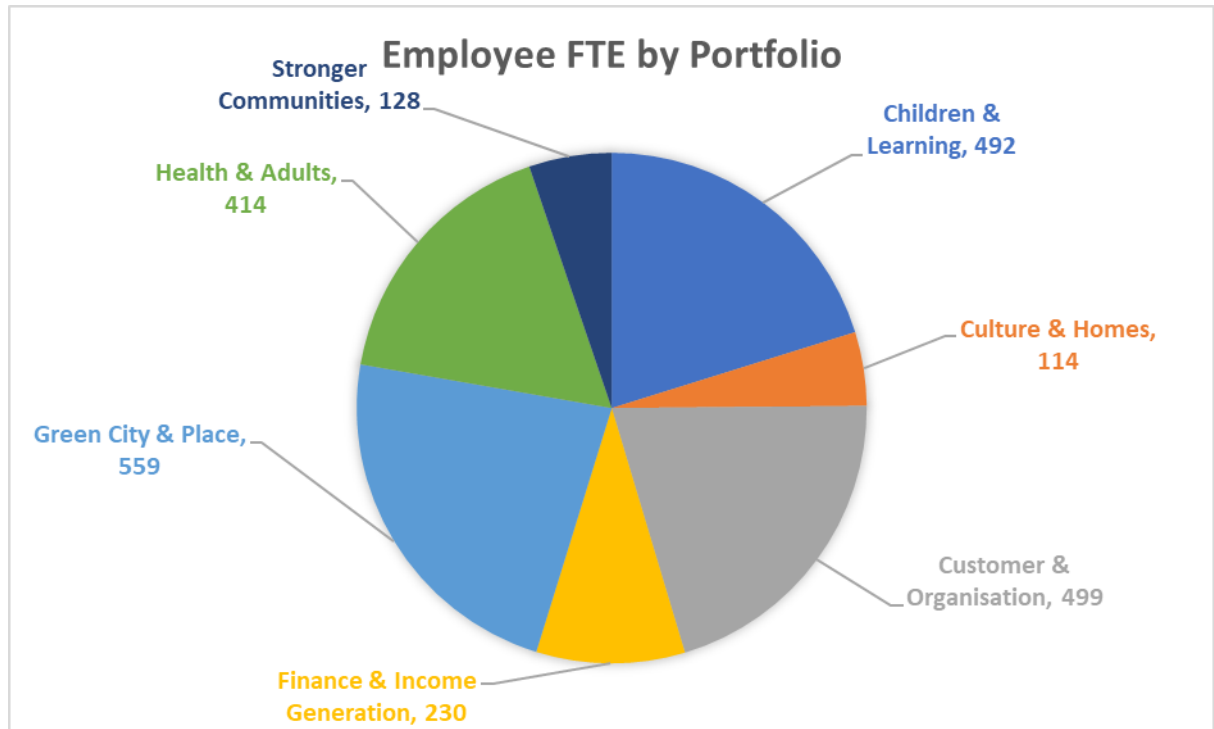
The team works together to set out the priorities and themes contained within the Southampton City Council Strategy.

Staffing

The Council employs circa 2,436 Full Time Equivalents to deliver these priorities (excluding school and Housing Revenue Account employees).

The following chart shows how these support the different Council services:

NARRATIVE STATEMENT



In line with the Government guidance in relation to Covid-19, the Council adopted a policy of advising employees to work from home, where possible, from March 2020. This way of working is already within the Council's flexible working policies and an established way of working for a number of staff, albeit not to the level that was experienced in March 2020.

The Council's Performance

The measures used to monitor and report on the authority's agreed corporate plan are given below, showing the performance taken from quarter 2 and 4 during the finance year, as well as the direction of travel and any comment as needed.

Communities, culture & homes	Preferred direction of travel	Baseline period	Baseline data	2020/21 Q2	2020/21 Q4	Current direction of travel	Comments
Success indicator							
Percentage of people reporting feeling safe in the city – during the day	▲	2018/19	81.60%	-	85%	Improving	City Survey is carried out every two years
Percentage of people reporting feeling safe in the city – at night	▲	2018/19	39.60%	-	35%	Worsening	
Percentage of people reporting feeling a sense of belonging to the local area (very or fairly strongly)	▲	2017/18	72.80%	-	77%	Improving	
Number of new build affordable housing (including	▲	2019/20	51	Progressing in line with plan		Stable	274 homes under

NARRATIVE STATEMENT

Green City								
Success indicator	Preferred direction of travel	Baseline period	Baseline data	2020/21 Q2	2020/21 Q4	Current direction of travel	Comments	
acquisitions) owned by Local Authority							construction. 726 in the planning stages.	
Number of assessments made where homelessness was prevented or relieved (experimental)	▲	Q4 20/21	297	323	333	Improving	A total of 1,226 assessments made in year	
Metric tonnes of CO2e (new definition)	▼	New measure and baseline in development to be reported 2021/22						
Metric tonnes of CO2e (old definition)	▼	2018/19	14647.02 tonnes	13544.41 tonnes (2019/20)		Improving		
Recorded levels of nitrogen dioxide in the city's Air Quality Management Areas (ug/m3) (calendar year)	▼	2018	34.53	33.50 (2019)		Improving		
The number of weekday cycles on main cycle routes (where cycle counters are in place) cumulative	▲	2019/20	27,572	18,736	29,588	Improving		
The number of passengers using public transport (cumulative)	▲	2019/20	20,184,134	3,042,618	7,327,000	Worsening	Impact of the three lockdowns on bus travel has reduced patronage by over 60% over 2020/21.	
Increasing the number of trees planted	▲	Measure and baseline to be reported from 2021						
Number of wildflower meadows planted	▲	2019/20	8	Planting started Nov 2020	13	Improving	6 additional meadows planted this year	
Percentage of household waste sent for recycling	▲	2019/20	29.22%	28.86%	25.32%	Worsening		
Place shaping	Preferred direction of travel	Baseline period	Baseline data	2020/21 Q2	2020/21 Q4	Current direction of travel	Comments	
Number of new homes built (housing completions)	▲	2019/20	460	Annual measure			Data available end of June 2021	
Percentage of year 12 and 13 in education, employment and training with accredited study	▲	2018/19	89.90%	88.10%	89.8%	Improving		
Reduced journey times (average journey time inbound across 8 main routes in the city)	▼	Nov 2019	14.03mins	Annual measure	11.34 mins	Improving	Data taken from March 2021 weekday peak	

NARRATIVE STATEMENT

Reduced journey times (average journey time outbound across 8 main routes in the city)	▼	Nov 2019	13.16mins	Annual measure	11.25 mins	Improving	times
Apprenticeship starts (18-64 per 1,000)	▲	2018/19	9.74	5.02 (at 6 months)		Stable	There is a delay with the publication of government apprenticeship data
Increase in economic growth (Gross value added per head)	▲	2018	£31,023	£30,865 (2019 provisional)		Stable	The provisional figure for 2019 shows a slight drop from the 2018 baseline
Wellbeing	Preferred direction of travel	Baseline period	Baseline data	2020/21 Q2	2020/21 Q4	Current direction of travel	Comments
Success indicator							
Male gap in life expectancy at birth between most and least deprived neighbourhoods	▼	2016-18	6.4 years	7.9 years (2017-2019)	8.7 years (2018-2020)	Worsening	
Female gap in life expectancy at birth between most and least deprived neighbourhoods	▼	2016-18	4.1 years	3.6 years (2017-2019)	4.1 years (2018-2020)	Stable	
Proportion of city pupils known to be eligible for Free School Meals (primary)	▼	2018/19	21.90%	24.60%	31.4%	Worsening	
Proportion of city pupils known to be eligible for Free School Meals (Secondary)	▼	2018/19	20.40%	23.60%	28.5%	Worsening	
Percentage of people with eligible needs supported to live independently	▲	2019/20	76.66%	79.61%	79.10%	Stable	
Number of Looked After Children (per 10,000)	▼	2019/20	96	95	97	Stable	
Percentage of care leavers in touch and in suitable accommodation	▲	2019/20	84.10%	85.06%	82.35%	Worsening	
Successful, sustainable business	Preferred direction of travel	Baseline period	Baseline data	2020/21 Q2	2020/21 Q4	Current direction of travel	Comments
Success indicator							
Percentage customers very or fairly satisfied with the way Southampton City Council runs things	▲	2017/18	49.80%	City survey due Q4 date	68%	Improving	This is an 18% improvement from 2018.
Employee engagement scores	▲	2018	59/100	Annual measure	70/100	Improving	Data from the latest staff survey

NARRATIVE STATEMENT

Percentage council spend with local suppliers	▲	2019/20	41.11%	41.16%	30.66%	Worsening	The profile of expenditure with local suppliers changed in Quarter 4 because of COVID-19 related matters and programme changes
Percentage of staff working flexibly	▲	2019/20	5%	81%	88%	Improving	Small improvement. The focus was on consolidating existing users, due to business need. Not all staff are able to work remotely
Total number of apprentices developing a career within SCC (existing employees)	▲	2019/20	94	113	122	Improving	
Number of days lost per employee to sickness absence	▼	2019/20	9.37 days	8.58 days	8.47 days	Improving	

3. A SUMMARY OF THE FINANCIAL PERFORMANCE

The budget for the financial year 2020/21 was agreed at full council when it met on 26 February 2020 and a balanced budget was set that included around £7.6M of planned savings for the year. The following sections describe the actual performance against this budget and the financial strategies that were agreed at the same Council meeting.

The Council incurs both revenue and capital expenditure. The revenue account (known as the General Fund or GF) bears the net cost of providing day to day services. The capital account shows the net cost of transactions made to buy or sell land, property or other assets, build new property, make improvements and provide grants or loans to other bodies to undertake this type of activity.

The table below shows the Council's outturn position and variances from the current budget.

NARRATIVE STATEMENT

General Fund Revenue Account: Outturn Position 2020/21	Budget 2020/21	Portfolio Outturn 2020/21	Outturn Variance 2020/21	
	£M	£M	£M	
Portfolios				
Children & Learning	46.96	57.24	10.29	A
Culture & Homes	8.79	10.96	2.18	A
Customer & Organisation	27.12	27.32	0.20	A
Finance & Income Generation	0.75	7.10	6.35	A
Green City & Place	23.25	30.95	7.70	A
Health & Adults	68.06	74.41	6.35	A
Stronger Communities	3.37	3.71	0.35	A
Sub total for Portfolios	178.29	211.69	33.41	A
Levies & Contributions	0.09	0.09	(0.00)	F
Capital Asset Management	6.02	5.38	(0.64)	F
Net Housing Benefit Payments	0.00	(0.11)	(0.11)	F
Other Expenditure & Income	6.80	(11.10)	(17.90)	F
Net Council Expenditure	191.19	205.95	14.76	A
Financed By:				
Council Tax	(102.28)	(102.28)	0.00	A
Business Rates	(54.57)	(54.57)	(0.00)	F
Non-Specific Government Grants & Other Funding	(34.34)	(57.72)	(23.38)	F
Total Financing	(191.19)	(214.58)	(23.38)	F
Transfer to Reserves - Year End Surplus		8.63	8.63	
(Surplus)/Deficit	0.00	0.00	(0.00)	

Numbers are rounded

Since the Council set its budget in February 2020 the financial pressure the council faces and future outlook has inevitably been fundamentally impacted by the Covid-19 pandemic, its effect on demand for council services and its wider economic impact.

The total overspend at Portfolio level amounted to £33.4M. Much of the overspend related to the impact felt from the pandemic, with the combined effects of additional pressure to spend, loss of income and delays to savings plans producing a total adverse pressure of £28.3M.

The most significant overspend related to the Children's and Learning Portfolio (£10.3M adverse), which was a product of a rise in the numbers and cost of looked after children, and additional expenditure relating to increased numbers of temporary social workers to deal with this increase and to cover vacancies.

The favourable variance for Other Expenditure & Income reflects the planned use of corporate funds and reserves to meet budget pressures and includes £6.9M of government support for COVID-19 which was carried forward from 2019/20. The favourable variance for non-specific grant (£23.4M) is mainly due to the receipt of COVID-19 LA Support Grant (tranches 2 – 4) (£15.5M) plus Fees and Charges Compensation (£7.4M).

The overall outturn for the council was a contribution to general reserves of £8.6M.

On-going significant pressure has been experienced in relation to both Adult Social Care and Children's Social Care services due in part to increasing demand and complexity of required services. This situation was made more severe during 2020/21 due to the pandemic, which not only impacted further on demand pressures but also meant savings plans in these areas were delayed as attention has focused on combating the impact of the pandemic.

NARRATIVE STATEMENT

As part of setting the budget for 2020/21 the circumstances and risks around service spending pressures were recognised, with further funding provided and a reserve set up to cater for all forms of social care demand, which has been accessed during 2020/21 to help offset demand pressure for Children's Social Care but is also available going forward with an uncommitted balance of £7.4M as at 1 April 2021.

Expenditure and Funding Analysis

It should be noted that an expenditure and funding analysis is included in the statutory accounts that helps to explain the difference between the way information is reported in year and the statutory reporting format required for the final accounts. This is called the Expenditure and Funding Analysis. This is detailed on page 28 and further in Note 8.

Expenditure is analysed below by category to explain further how the Council spends its resources.

	Budget 2020/21	Portfolio Outturn 2020/21	Outturn Variance 2020/21	
	£M	£M	£M	
Salaries & Wages	118.76	124.36	5.61	A
Premises Costs	13.00	10.62	(2.38)	F
Transportation Costs	6.65	6.66	0.01	A
Supplies & Services	99.68	173.65	73.96	A
Internal Charges	16.32	19.90	3.58	A
Other Direct Costs	220.44	247.68	27.25	A
Total Expenditure	474.85	582.87	108.02	A
Internal Income	(39.84)	(39.70)	0.14	A
Fees, Charges & Rents	(61.38)	(45.49)	15.89	A
Grants / Contributions	(199.19)	(285.98)	(86.80)	F
Total Net Expenditure	174.44	211.69	37.25	A

Numbers are rounded

This analysis excludes HRA and Housing Benefit areas when compared to the EFA.

COLLECTION FUND

As the billing authority for Southampton, the City Council maintains a Collection Fund for the receipt and distribution of local taxes. The Council Tax element of the Collection Fund is credited with income from Council Tax payers and debited with the Council's call on the Fund plus the precepts of the Hampshire Police & Crime Commissioner and Hampshire Fire & Rescue Authority. The Fund is used to smooth the difference between the actual and budgeted amount of Council Tax collected each year. Any surplus or deficit on the Fund is reflected in the following years' Council Tax calculations. The Business Rates element of the Collection Fund operates in a broadly similar way. The Collection Fund as a whole has a deficit of £51.9M at 31 March 2021. Government grant funding has been received in 2020/21 towards the deficit, however the deficit is being recovered from the Council and other preceptors in future years. Under recommended accounting practice the £25.8M of Collection Fund support received by the Council has been transferred to the Revenue Grant Reserve to be used in 2021/22.

NARRATIVE STATEMENT

HOUSING REVENUE ACCOUNT

The Housing Revenue Account (HRA) summarises the transactions relating to the provision, maintenance and sale of Council houses and flats. Although this account is also included within the Core Financial Statements it represents such a significant proportion of the services provided by the Council that it is a requirement that it has a separate account. The account has to be self-financing and there is a legal prohibition on cross subsidising to or from the council tax payer. The HRA statements are included on pages 111 to 115.

HRA Outturn Position 2020/21

The table below shows the HRA outturn position.

Housing Revenue Account: Outturn Position 2020/21	Budget 2020/21 £M	Outturn 2020/21 £M	Outturn Variance 2020/21 £M
<u>EXPENDITURE</u>			
Responsive Repairs	13.27	15.29	2.03 A
Housing Investment	5.19	3.80	(1.39) F
Total Repairs	18.45	19.09	0.64 A
Rents Payable	0.10	0.15	0.05 A
Debt Management	0.09	0.08	(0.00) F
Supervision & Management	22.52	22.86	0.34 A
Interest Repayments	5.09	4.78	(0.32) F
Principal Repayments	0.00	0.00	0.00
Depreciation	20.47	21.55	1.08 A
Capital Financing	8.89	7.19	(1.70) F
TOTAL EXPENDITURE	75.61	75.69	0.09 A
<u>INCOME</u>			
Dwelling Rents	70.24	70.48	(0.24) F
Other Rents	1.23	1.20	0.02 A
Total Rental Income	71.47	71.69	(0.22) F
Service Charge Income	3.26	2.47	0.78 A
Leaseholder Service Charges	0.88	1.54	(0.66) F
Interest Received	0.01	0.00	0.01 A
TOTAL INCOME	75.61	75.69	(0.09) F
SURPLUS/(DEFICIT) FOR YEAR	0.00	0.00	(0.00)
<u>BALANCES</u>			
Working Balance B/Fwd	2.00	2.00	0.00
Surplus/(deficit) for year	(0.00)	0.00	0.00
WORKING BALANCE C/FWD	2.00	2.00	0.00

Numbers are rounded

NARRATIVE STATEMENT

CAPITAL

The capital programme budget for the year, including changes approved under delegated powers, was £130.88M in total for the General Fund and HRA. Final capital spend for the year was £84.17M, this was £46.72M less than the budget, including slippage/re-phasing of £40.14M. This will be reflected in the post outturn update of the overall programme.

The table below shows the capital expenditure for the year against budget for each Portfolio:

Service	2020/21 Budget £M	2020/21 Expenditure £M	Variance £M
Children & Learning	17.24	14.16	3.08 F
Culture & Homes	1.03	0.07	0.97 F
Customer & Organisation	6.20	5.06	1.15 F
Finance & Income Generation	1.27	1.26	0.01 F
Green City & Place	55.76	27.91	27.86 F
Health & Adults	0.15	0.13	0.02 F
Stronger Communities	1.87	1.61	0.25 F
Total General Fund Programme	83.53	50.20	33.33 F
Housing Revenue Account	47.36	33.97	13.39 F
Total Capital Programme	130.88	84.17	46.72 F

Numbers are rounded

The final spend for the year was £46.72M lower than the budget. Of this, £40.14M was due to slippage/re-phasing on schemes, which will be spent in 2021/22 predominantly on the following schemes:

Integrated Transport	£18.75M
Other Environment	£3.74M
Highways	£2.26M
Townhill Park Infrastructure	£0.54M
Secondary Expansion	£1.00M
School Capital Maintenance	£0.76M
HRA - Making Homes Energy Efficient	£3.63M
HRA - Regeneration & New Build	£3.52M
Transformation Capital Programme	£0.98M

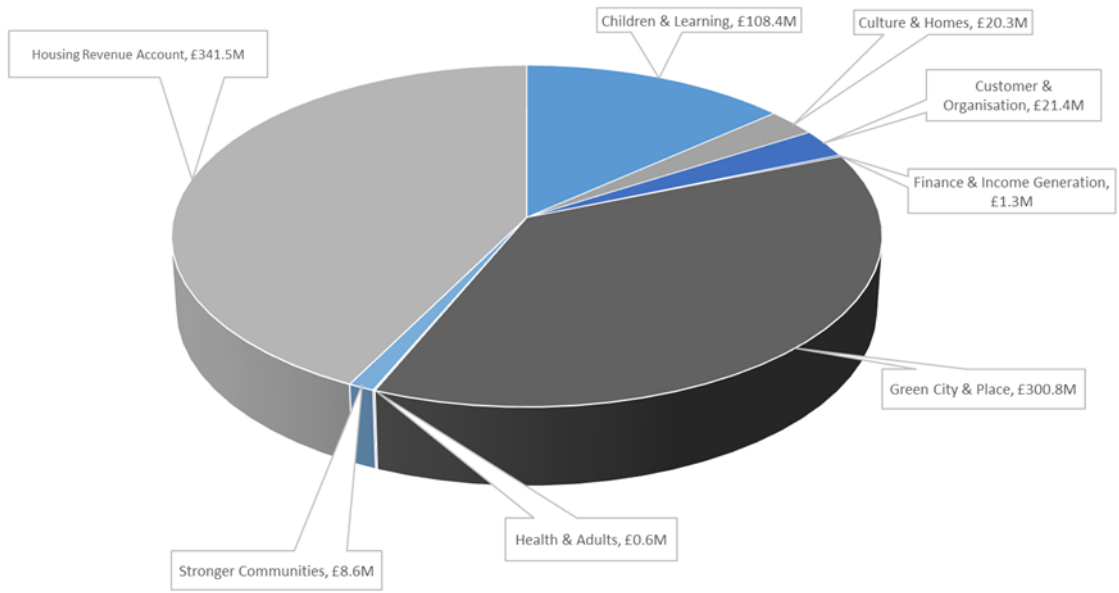
Numbers are rounded

5 Year Capital Programme

The current approved 5-year capital programme which totals £802.91M and its funding are shown in the following charts. The programme will be updated following outturn to incorporate any slippage, re-phasing and under/overspends.

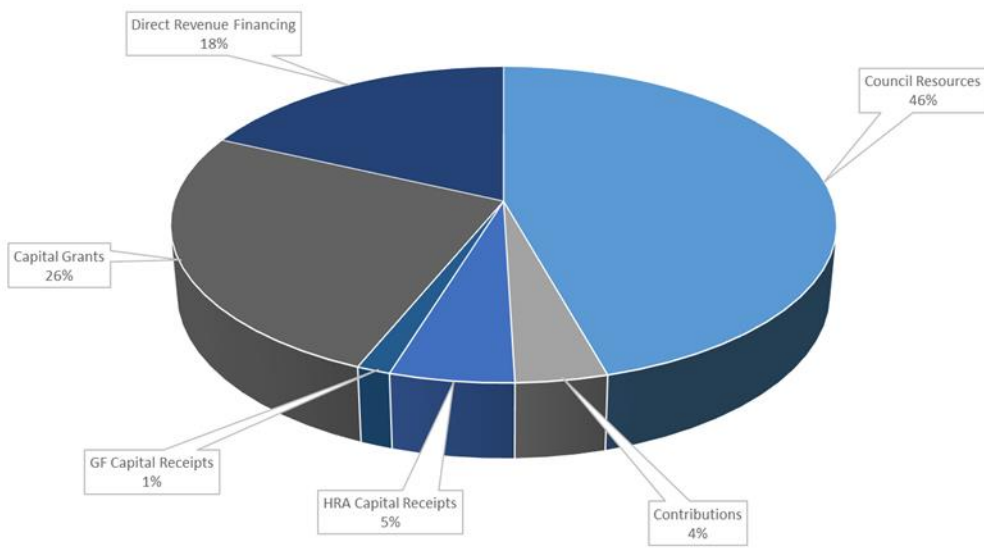
NARRATIVE STATEMENT

CAPITAL EXPENDITURE - 5 YEAR PROGRAMME 2020/21 - 2024/25



Funded by:

CAPITAL FUNDING - 5 YEAR PROGRAMME 2020/21 - 2024/25



NARRATIVE STATEMENT

TREASURY MANAGEMENT

The Treasury Management Strategy is reviewed annually and provides the framework within which authority is delegated to the Executive Director for Finance, Commercialisation & S151 Officer to make decisions on the management of the Council's debt and investment of surplus funds.

The current strategy, as outlined in the Council's agreed strategy, is that as we have an increasing borrowing requirement our overall intention is to minimise both external borrowing and investments and to only borrow to the level of the net borrowing requirement. The reasons for this are to reduce credit risk, take pressure off the Council's lending list and also to avoid the cost of carry existing in the current interest rate environment.

The Churches, Charities and Local Authorities (CCLA) property investment fund has generated returns of 4.25% against our original investment of £27M. There was a further fall in the estimated property value, when compared to the original investment value, of £0.19M (loss of £0.53M in 2019/20) The fair value for 2020/21 was £26.28M against the original £27M investment an estimated loss of £0.72M.

RESERVES AND BALANCES

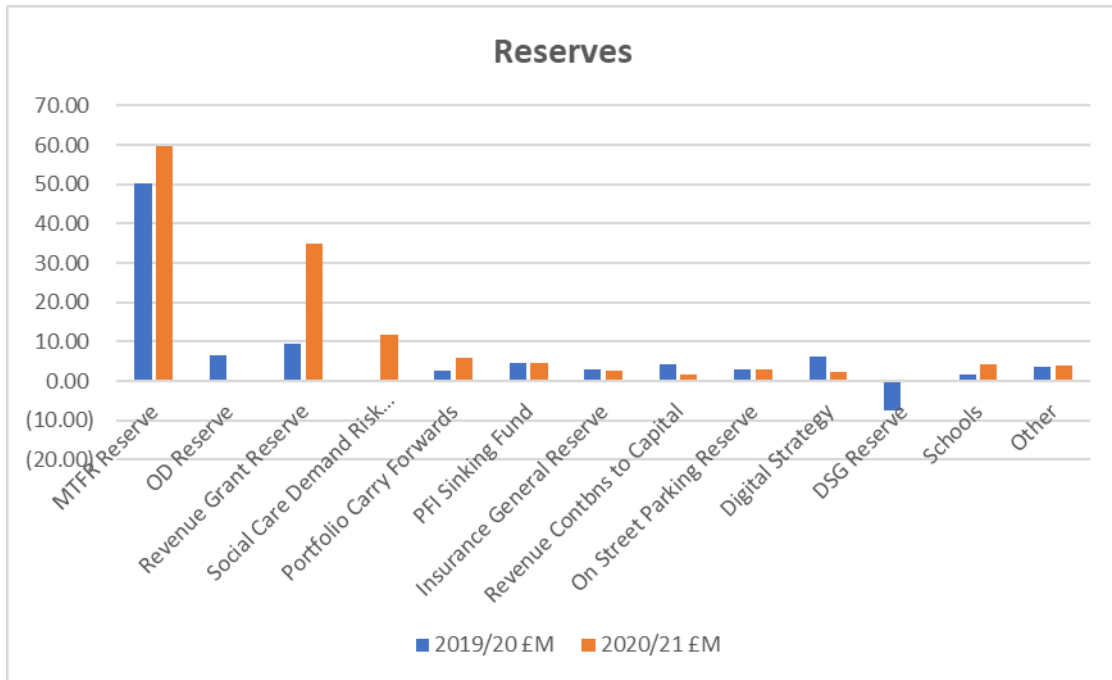
The Council maintains a number of useable reserves, as detailed in the Balance Sheet.

We aim to identify, within the MTF, the financial risks facing the Council in the medium term. This includes assessing the risk of continuing reductions in central government funding. The subsequent budget shortfalls that the Council then faces and overall local and national economic factors which can affect the financial stability of the Council.

In light of the increasing level of risk and uncertainty identified with the MTF and the increased probability of financial resources being required to support its delivery, it continues to be important that the Council maintains strong levels of reserves. Reserves were reviewed as part of the financial strategy agreed by the Council at its meeting in February 2021. The necessity for a robust level of reserves is reinforced by the financial pressures commencing in late 2019/20 and through all 2020/21 arising from the COVID-19 situation. Even though Government grant support has been made available to assist with the additional costs and loss of income, there is an expectation from Government that some degree of financial impact will be shouldered by local councils, and no financial support is available from Government for the impact the pandemic has had on setting back savings plans.

The graph below highlights the changes in the value of reserves between 31 March 2020 and 31 March 2021. It is important to note that the Revenue Grant Reserve has increased significantly, but this mainly reflects timing differences in accounting for business rates. The Government introduced arrangements to provide 100 per cent discounts to the business rates payable by the retail and hospitality sectors which were particularly badly hit by the pandemic's effects. In order that local government funding did not suffer as a consequence, the loss of revenue was fully recompensed by the government in 2020/21. The Council received £24.7M of additional grant for business rates foregone. However, the accounting arrangements for business rates mean that the shortfall experienced in 2020/21 will not be charged to the General Fund until 2021/22 and hence the additional grant has been added to reserves for this purpose. This sum is therefore committed in 2021/22 to make good the shortfall and does not represent additional resources available to the Council to spend on service provision.

NARRATIVE STATEMENT



The Council's level for the General Fund Balance was reconsidered as a part of the budget setting process for 2021/22 and the required level of minimum balance, as determined by assessing the level of risk the Council faces, is considered to be £10M (the existing level).

PRINCIPAL RISKS AND UNCERTAINTY

Risk management is an essential part the Council's overall governance arrangements in that it provides the framework and process to enable the organisation to manage risk in a systematic, consistent and efficient way. The risk management framework comprises the overall arrangements in place across the council that are intended to ensure that proper consideration is taken of risk. The key components of this framework are:

Risk Management Policy - This provides an overview of the operating framework, arrangements and responsibilities for managing risk and is intended to assist officers, at all levels, in applying sound risk management principles and practices across their areas of responsibility. This policy, which is published on the council's intranet, is subject to annual review and update as necessary.

Strategic Risk Register - The Strategic Risk Register is a key document in terms of identifying, assessing and managing the council's key strategic risks. The Strategic Risk Register is developed and managed in consultation with the Executive Management Board (Chief Executive and Executive Directors). The Strategic Risk Register is updated on a quarterly basis with the end of quarter position reported to and reviewed by the Executive Management Board. The identified 'strategic risks' are subject to change as new risks may emerge whilst others may become less significant as mitigating actions are implemented, or external factors change the nature of the risk.

The emergence of the Coronavirus pandemic has had a significant impact on the organisation in terms of new and emerging risks. In response, a separate Covid-19 Risk Register was developed and between May and September 2020 was subject to fortnightly review and reporting to the Executive Management Board - which reflected the rapidly changing nature of the risk and the responses required. In response to the move from the 'emergency response' phase, to 'stabilisation' and finally to 'recovery' phase the risks have now been subsumed into either the Strategic Risk Register or the 'Outbreak Control Plan Risk Log'. With the latter being managed by via the Health Protection Board.

NARRATIVE STATEMENT

Project and Programme Risk Management -The need to identify and manage risk runs throughout the project and programme management process from initiation to implementation. Risk management is key component of project governance with individual risk logs developed in order to ensure that project sponsors/boards are aware of and understand the key risks associated with the delivery of the project.

Decision Taking: Corporate Report Template - The council's standard corporate report template includes a 'Risk Management Implications' section that requires a report author to consider and provide the 'decision taker' with relevant and proportionate information regarding the risks associated with the project or initiative that is the subject of the report.

4. AN EXPLANATION OF THE STATEMENT OF ACCOUNTS

The Statement of Accounts brings together all the financial activities of the Council for the year and its financial position as at the 31 March 2021. It details both revenue and capital elements for both the General Fund and the HRA.

Local authorities are governed by a rigorous structure of controls to provide stakeholders with the confidence that public money has been properly accounted for. As part of this process of accountability, the Council is required to produce a set of accounts in order to inform stakeholders of the Council that we have properly accounted for all the public money we have received and spent and that the financial standing of the Council is on a secure basis.

A glossary of key terms can be found at the end of this document.

Core Financial Statements:	Page
Responsibilities for the Statement of Accounts	27
This statement shows the responsibilities of the Council and the Chief Financial Officer.	
Expenditure and Funding Analysis (Not a Core Financial Statement)	28
The purpose of this statement is to report performance in a similar format used for reporting to management throughout the year.	
The objective of the Expenditure and Funding Analysis (EFA) is to demonstrate to council tax (and rent) payers how the funding available to the Council (i.e. Government grants, rents, council tax and business rates) for the year has been used in providing services in comparison with those resources consumed or earned by authorities in accordance with Generally Accepted Accounting Practices.	
The EFA also shows how this expenditure has been allocated for decision making purposes between the Council's service portfolios. Income and expenditure accounted for under generally accepted accounting practices are shown more fully in the Comprehensive Income and Expenditure Statement.	
Comprehensive Income and Expenditure Statement (CIES)	29
This records all the Council's income and expenditure for the year. The statement analyses income and expenditure by service area as well as non-service specific or corporate transactions and funding. The format followed is provided by The Chartered Institute of Public Finance and Accountancy (CIPFA) so that comparisons of local authority accounts can be undertaken.	
Movement in Reserves Statement (MiRS)	30
This 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 other 'unusable' reserves which are set aside for specific purposes. As a local authority, special	

NARRATIVE STATEMENT

dispensation is given to ensure some standard accounting entries such as depreciation do not affect the council tax payer. These amendments are shown as part of the MiRS.

Balance Sheet

The Balance Sheet shows the value as at the 31 March 2021 of the assets and liabilities recognised by the Council. The net assets of the Council (assets less liabilities) are matched by the reserves held by the Council. 31

Cash Flow Statement

This statement shows the reasons for changes in the Council's cash balances in year. Cash flows are classified as; 32

- Operating – this gives an indication of the extent to which services provided by the council are funded by way of taxation, grant income or payments from recipients of services
- Investing – how much income has been generated from resources held to contribute to future service delivery
- Financing activities - cash flows arising from financing activities are useful in predicting claims on future cash flows by providers of capital (i.e. borrowing) to the Council.

Notes to the Core Financial Statements (including Accounting Policies) 33 – 110

Housing Revenue Account (HRA) 111 - 115

This account summarises the transactions relating to the provision, maintenance and sale of Council houses and flats.

Collection Fund 116 - 118

This statement shows the income received from Council Tax payers and Business Rate payers and how the income is distributed.

Glossary 119 - 122

Annual Governance Statement 123 - 136

Auditor's Report and Certificate 137

5. ISSUES AND DEVELOPMENTS

COVID-19 Pandemic

Southampton City Council has been playing a critical role in helping to lead the local response to COVID-19, both through its own services and via co-ordination with partner bodies such as the Local Resilience Forum (LRF) and others. The aim has been to save lives, protect the NHS, ensure our residents are protected, help support those residents who need to be shielded as part of particularly vulnerable groups in the community and that crucial public services continue to operate.

The Council responded quickly following the emergency announcement and subsequent restrictions imposed on 23 March 2020 and during 2020/21 has operated on an emergency footing, via the established procedure of Gold and Silver Command structures. Staff have been identified and re-deployed into emergency response activities.

The financial implications of COVID-19 were captured and reported regularly to the Ministry for Housing, Communities and Local Government (MHCLG) during the year.

The Council has received £22.9M of COVID-19 related general funding, spread over 4 tranches (of which £0.5M was applied in 2019/20). Furthermore, it is expected that the Council will receive £7.4M in support from Government through its compensation scheme for Sales Fees and Charges lost income. However, this only provides for 75% compensation, after deduction of a 5% allowance from budgets for volatility and

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it also does not provide any compensation for losses connected with property rents. No COVID-19 related government support has been provided for the Housing Revenue Account.

Further funding has been received from Government, in relation to financial support for specific services and measures, and these have been reported to Cabinet on a quarterly basis.

At the February 2020 Council meeting a very robust budget for 2020/21 was set, as well as financial plans for the following two years with financial resilience very much in mind. All COVID related adverse financial impacts have been managed, as they would with any other challenge, with sound financial management and stewardship of resources.

Part of the picture which provides for financial resilience are corporate sums which provide cover for all manner of risks, which include a general fund balance of £10.1M and a Medium Term Financial Risk Reserve so far not allocated of £36.5M.

The contingency within the 2021/22 budget was set at approx. £9.5M per the February budget papers agreed by Council. The HRA balance at 31 March 2021 was £2M and this remains available to support any additional costs specific to the Housing Revenue Account.

The Council has been either directly involved, or worked in partnership, to support many different initiatives designed to protect our communities, local business and vulnerable people to help overcome the pandemic crisis. During 2020/21, these measures included:

- Spent approx. £3M (grant funded) in 2020/21 on combating Covid via outbreak control and management measures.
- A 10% goodwill grant payment made to Adult Social Care providers (£2.1M) to ensure the market can cope with the number of clients needing support.
- Of the grants received from Government, £107.9M has been in the form of funding to administer and disperse to third parties, mainly including businesses. Both business support grants and business rates reliefs have been dispersed since March 2020. Business rate reliefs alone provided over 1,926 businesses with awards totalling £52.2M under the expanded retail, hospitality, non-essential retail and nursery schemes.
- Administered the scheme to provide £150 off the council tax bill for 2020/21 for those eligible within the Local Council Tax Support Scheme.
- Suspended recovery action across Council services during April and May for those unable to pay sums owed to the Council, in recognition of the financial challenges arising from the current crisis.
- Supported the homeless and rough sleepers to self-isolate in local accommodation.
- Administered around £2M from Government to help care homes implement and enhance their infection control measures.
- Funding additional staffing costs of around £2.2M, mainly for staff in both Adults and Children's Social Care as they responded to the crisis and support vulnerable clients.
- Approx. £0.3M for supplies acquired for personal protective equipment (PPE) usage, which ensured we reacted quickly to meet demand in periods of significant supply challenges to ensure that SCC's staff were able to access PPE throughout the pandemic period to ensure that our customers, staff and the public were kept as safe as possible.
- Ensuring the availability of emergency additional mortuary provision, provided jointly with other Hampshire authorities, as well as extra coroners costs, at around £0.5M.
- Operating the emergency food hub, initially located at the Guildhall then to St Mary's.
- Provided additional support for COVID safe Home to School Transport at a net extra cost of £0.4M.
- Implemented a local Test and Trace Service. Between 3 December 2020 and 20 April 2021, the service handled 1538 cases in total, approximately 14.51% of all positive cases in Southampton. The

NARRATIVE STATEMENT

service successfully contacted 850 of these index cases and traced their close contacts. This service is anticipated to continue until June 2022, helping the city overcome the pandemic.

- Taking a positive and pragmatic stance on the opportunity provided by the pandemic to deliver the highways capital programme early during lockdown periods in order to minimise disruption to road users, support economic recovery and aid efficient expenditure control
- Adjusted the Social Value and Green City Procurement Policy Framework to support economic and local recovery through procurement activities.

During the pandemic, the Government has sought to assist cash flow of all local councils by providing up front funding as far as possible, both in terms of the grants to businesses administered by the Council on its behalf and the funding to the local authority itself (under the business rates retention scheme).

The level of uncertainty about the impact of the crisis and its duration, coupled with an uncertain funding position for the ongoing financial impact faced, means the financial position in future years is unclear. The Council's Medium Term Financial Forecast will be regularly reviewed, and as part of the February 2021 budget report to Council highlighted an anticipated shortfall of around £22.5M for 2022/23. Work has started early to address this shortfall, however, the Council has a good degree of financial strength, as evidenced by the recent CIPFA resilience index.

The work needed to support the recovery from the public health crisis and its consequential economic effects are being addressed in tandem with the Local Resilience Forum and through partnership working with local authorities across Hampshire.

Transforming Cities Fund (TCF)

As part of the 2020 National Budget, the Chancellor announced in March 2020 the outcome of the Industrial Strategy's Transforming Cities Fund (TCF). Southampton City Council and Hampshire County Council submitted a joint bid for the Southampton City Region, which was awarded £57M of Government funding towards the project and covers the three years to March 2023.

There are three different types of schemes included in the grant award – Cycling, Active Travel Zones/Mobility Hubs and Rapid Bus/Intelligent Transport systems. In addition to these, there are a number of city centre schemes which have been grouped separately due to their overarching nature, containing all of the above elements. These will be delivered in conjunction with and complementing the other schemes

Significant progress has been made in 2020/21 and projects completed during the year include the Bevios Valley and West Quay Road cycle schemes, along with bus lane improvements on Mountbatten Way. Regular progress updates and more information on current and future schemes can be found at <https://transport.southampton.gov.uk/transforming-cities/>.

IT Investment Plan

The Council agreed a five-year investment plan for IT and Digital services in November 2020 that has been created to ensure that work started through the Desktop Refresh and Smart Ways of Working projects is completed and that there is a clear plan for ongoing investment in IT and Technology through to 2025.

The Investment Plan will enable a continuation of service improvements and ensure that high-quality, effective IT services can be delivered in future years. It also enables front-line services to plan properly for the service improvements they need that depend on modern IT infrastructure and systems.

To support this plan, a total of £8.5M was added to the capital programme plus a further £4.1M of revenue costs have been agreed and allowed for in the Council's Medium Term Financial Forecast.

The Investment Plan has been developed in conjunction with all services across the council and therefore represents the technology requirements to allow ongoing development of service area applications and digital solutions for the Housing, Council Tax, Social Care, Revenues and Benefits services, as well as addressing underlying IT infrastructure requirements. The Investment Plan represents a significant investment in IT and Digital services but one that will enable on-going significant improvements in service

NARRATIVE STATEMENT

delivery. Adopting and exploiting new technologies such as robotics, automation and AI will ensure that Southampton remains at the forefront of technology and digital services.

Potters Court

Work on the Potters Court Development was completed during 2020/21. With 83 one and two-bedroom flats, Potters Court is the largest housing with care scheme in Southampton, offering independent living for older people with care and support needs. Potters Court is designed for older adults (either single people or couples) who have a housing need, as well as care and support needs. The project is HRA funded (charging affordable rents) and enables greater independence for residents through modern living with support (e.g. telecare and wheelchair accessibility) for residents.

The development will also contain a restaurant and health and wellbeing suite, which will be open to the local community to enjoy, plus communal lounges, gardens, laundry and IT facilities.

Housing with care provides residents with the privacy and independence of their own flat, plus the reassurance of onsite support and 24-hour care. The care and support packages are tailored to how much or how little is required; residents with significant care needs, including those with cognitive impairments such as dementia, can be supported, as well as those who are more independent but would still benefit from the supportive environment the complex offers. Staff are available to check on people's wellbeing and help in emergencies (such as falls or unexpected illness) throughout the day and night, offering peace of mind.

City of Culture

During 2020/21, at full Council there was unanimous support to agree the commitment and necessary funding to bid for City of Culture status for 2025. This has the capacity to be a major development, raising the profile of the city and giving long term economic benefits; opportunities for young people; regional, national and international profile raising for the City as well as helping to address the social needs of our city, using culture as a catalyst to bring the City together and drive change.

Itchen Bridge

A contactless payment option was introduced for Itchen Bridge during 2020/21. New card readers were installed at the payment booths to provide convenient option for people making the crossing.

Home working/online meetings

The Council adapted its processes and IT set up to quickly facilitate staff to comply with the Government expectation of home working where you can. During 2020/21, the Council was able to support an additional 1800 number of staff work from home regularly. Capacity of the remote connection was more than quadrupled and new technology implemented to make it more reliable and increase the range of services available outside of the office. Roll out of office 365 and use of teams was accelerated to support this enhanced capacity, which was a part of existing plans, but which had to be much more quickly implemented than previously anticipated. 3,500 staff are now connected via the Microsoft 365/Teams platforms across a range of services including front line workers.

Starboard Way (Oaklands Development)

In July 2019, the Council agreed to proceed with the development of the Former Oakland's Community School site which will provide 103 new homes, at an expected cost of £17.4M. Construction has therefore been underway during 2020/21.

Formerly known as Oaklands, Starboard Way is a development of 103 new council-owned homes off Fairisle Road in Lordshill featuring a mixture of council-rented and shared-ownership homes, while a proportion will also be made available to residents with care needs.

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Starboard Way is set to complement the surrounding area and offer a contemporary street scene by including:

- Semi-detached pairs, short terraces and small blocks of two and three-storey flats
- A mixture of roof designs
- A range of energy-efficient features, such as solar panels
- Areas of formal and informal play across the site
- A cycle path will be rerouted through the development
- Electric charging points in car parking areas, plus improved electrical infrastructure (including substation upgrade) for houses to have the option for these to be installed at a later date

Accounting issues

There have been no significant changes to the Code of Practice on Local Authority Accounting for 2020/21. A change in legislation now requires the deficit on the Dedicated Schools Grant to be held in an unusable reserve (see note 22(f)). The implementation of International Financial Reporting Standard (IFRS) 16 *Leases*, previously expected to be applied from 2020/21, has been deferred for a further year until 2022/23.

STATEMENT OF RESPONSIBILITIES

1. The Council's Responsibilities

The Council is required to:

- Make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this Council that officer is the Section 151 (S151) Officer.
- Manage its affairs to secure economic, efficient use of resources and safeguard assets.
- Approve the Statement of Accounts.

2. The Section 151 Officer's Responsibilities

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

In preparing this Statement of Accounts the S151 Officer has:

- Selected suitable accounting policies and then applied them consistently
- Made judgements and estimates that were reasonable and prudent
- Complied with the Local Authority Code (any significant non-compliance being fully disclosed)

The S151 Officer has also:

- Kept proper accounting records, which were up to date
- Taken reasonable steps for the prevention and detection of fraud and other irregularities.

3. Certification of the Accounts

I certify that the Statement of Accounts gives a true and fair view of the financial position of Southampton City Council at 31 March 2021 and of its income and expenditure for the year ended 31 March 2021.

Signed **J Harrison** _____ Date 14/06/2021
Section 151 Officer

4. Approval of the Accounts

I certify that the Statement of Accounts has been approved by a resolution of the Governance Committee in accordance with the Accounts and Audit (England) Regulations 2015 and is authorised for issue.

Signed **D Fuller** _____ Date
Chair, Governance Committee

THE FINANCIAL STATEMENTS

Expenditure and Funding Analysis

The Expenditure and Funding Analysis (EFA) is a note showing how the annual expenditure is used and funded from resources (government grants, rents, council tax and business rates) by local authorities in comparison with those resources consumed or earned by authorities in accordance with generally accepted accounting practices. It also shows how the expenditure is allocated for decision making purposes between the council's services. Income and expenditure accounted for under generally accepted accounting practices is presented more fully in the Comprehensive Income and Expenditure Statement. Further information is contained in Note 8 on page 54.

<u>2019/20 Restated</u>				2020/21		
Net Expenditure Chargeable to the General Fund and HRA Balances	Adjustments between the Funding and Accounting Basis (Note 8)	Net Expenditure in the Comprehensive Income and Expenditure Statement		Net Expenditure Chargeable to the General Fund and HRA Balances	Adjustments between the Funding and Accounting Basis (Note 8)	Net Expenditure in the Comprehensive Income and Expenditure Statement
£000	£000	£000		£000	£000	£000
55,991	21,427	77,418	Children & Learning	57,244	11,476	68,720
8,087	3,159	11,246	Culture & Homes	10,962	2,724	13,686
26,906	6,543	33,449	Customer & Organisation	27,323	3,051	30,374
8,698	1,839	10,537	Finance & Income Generation	7,096	5,461	12,557
22,499	5,108	27,607	Green City & Place	30,948	7,242	38,190
62,255	3,323	65,578	Health & Adults	74,408	(4,750)	69,658
(15,508)	(30)	(15,538)	Housing Revenue Account (HRA)	(12,970)	3,394	(9,576)
1,821	1,266	3,087	Stronger Communities	3,714	712	4,426
(642)	(580)	(1,222)	Housing Benefit	(113)	205	92
0	1,482	1,482	Other Income & Expenditure	0	(2,113)	(2,113)
			Other items of expenditure and income:			
0	(3,721)	(3,721)	Correction for Housing Improvement Loans	0	0	0
0	13,979	13,979	Revaluation & Impairment of General Fund Assets	0	3,493	3,493
0	18,383	18,383	Housing Revenue Account (HRA) - Revaluation and impairment loss/(gain) on dwellings	0	(42,021)	(42,021)
170,107	72,178	242,285	Cost of Services	198,612	(11,126)	187,486
(169,204)	(41,231)	(210,435)	Other Income & Expenditure	(245,398)	42,561	(202,837)
903	30,947	31,850	(Surplus)/Deficit	(46,786)	31,435	(15,351)
(98,732)			Opening General Fund Balance	(97,829)		
(2,000)			Opening HRA Balance	(2,000)		
903			Less/Plus Deficit/(Surplus) on General Fund	(46,786)		
0			Less/Plus Deficit/(Surplus) on HRA	0		
(97,829)			Closing General Fund Balance	(144,615)		
(2,000)			Closing HRA Balance	(2,000)		
(99,829)			Closing General Fund & HRA Balance	(146,615)		

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Comprehensive Income and Expenditure Statement

2019/20 Restated				2020/21			
Expenditure	Income	Net		Expenditure	Income	Net	
£000	£000	£000		Notes	£000	£000	
234,993	(157,575)	77,418	Children & Learning		240,322	(171,602)	68,720
16,941	(5,695)	11,246	Culture & Homes		18,132	(4,446)	13,686
37,048	(3,599)	33,449	Customer & Organisation		33,976	(3,602)	30,374
18,061	(7,524)	10,537	Finance & Income Generation		24,131	(11,574)	12,557
54,224	(26,617)	27,607	Green City & Place		57,230	(19,040)	38,190
116,258	(50,680)	65,578	Health & Adults		130,069	(60,411)	69,658
63,484	(79,022)	(15,538)	Housing Revenue Account (HRA)		66,999	(76,575)	(9,576)
11,070	(7,983)	3,087	Stronger Communities		12,180	(7,754)	4,426
71,441	(72,663)	(1,222)	Housing Benefit		71,142	(71,050)	92
1,730	(248)	1,482	Other Income & Expenditure		512	(2,625)	(2,113)
			Other items of expenditure and income:	6			
(3,721)	0	(3,721)	Correction for Housing Improvement Loans		0	0	0
13,979	0	13,979	Revaluation & Impairment of General Fund Assets		3,493	0	3,493
18,383	0	18,383	Housing Revenue Account (HRA) - Revaluation and impairment loss/(gain) on dwellings		(42,021)	0	(42,021)
653,891	(411,606)	242,285	Cost of Services	8	616,165	(428,679)	187,486
9,217	(12,132)	(2,915)	Loss/ (Gain) on the disposal of Non Current Assets	12c	13,575	(4,478)	9,097
83	0	83	Contributions to Other Local Public Bodies		86	0	86
4,152	0	4,152	Contributions of Housing Capital Receipts to Government Pool		1,160	0	1,160
13,452	(12,132)	1,320	Other Operating Expenditure		14,821	(4,478)	10,343
16,172	(7,903)	8,269	Income and Expenditure in relation to Investment Properties and changes in their fair value	14	6,779	(6,170)	609
18,159	0	18,159	Interest payable and similar charges	11	16,657	0	16,657
0	(785)	(785)	Interest and Investment Income	11	0	(1,854)	(1,854)
10,648	0	10,648	Net interest on the defined benefit liability (asset)	34b	11,063	0	11,063
44,979	(8,688)	36,291	Financing, and Investment Income & Expenditure		34,499	(8,024)	26,475
0	(98,307)	(98,307)	Council Tax Income		0	(103,514)	(103,514)
0	(81,437)	(81,437)	Business Rates		0	(26,937)	(26,937)
0	(13,807)	(13,807)	General Government Grants	37c	0	(58,390)	(58,390)
0	0	0	S31 Business Rates Grant for COVID-19 Reliefs	6, 37c	0	(25,586)	(25,586)
0	(54,495)	(54,495)	Capital Grants and Contributions	37b	0	(25,228)	(25,228)
0	(248,046)	(248,046)	Taxation and Non-Specific Grant Income		0	(239,655)	(239,655)
712,322	(680,472)	31,850	Deficit/(Surplus) on the Provision of Services		665,485	(680,836)	(15,351)
		(35,094)	Deficit/(Surplus) on revaluation of non current assets	22a			(15,107)
		0	Impairment losses/(gains) on non-current assets charged to the revaluation reserve	22a			0
		8,970	Remeasurements of the net defined benefit liability (asset)	34b			61,780
		(26,124)	Other Comprehensive (Income)/Expenditure				46,673
		5,726	Total Comprehensive Expenditure				31,322

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Movement in Reserves Statement

	General Fund Balance £000	Earmarked Reserves £000	Housing Revenue Account £000	Earmarked HRA Reserves £000	Capital Receipts Reserve £000	Major Repairs Reserve £000	Capital Grants & Contributions Unapplied £000	Total Usable Reserve £000	Unusable Reserves £000	Total Authority Reserves £000
Balance at 1 April 2020	(10,066)	(87,763)	(2,000)	0	(24,089)	0	(50,633)	(174,551)	(776,501)	(951,052)
<u>Movement in Reserves during 2020/21</u>										
Total Comprehensive Income and Expenditure	30,223		(45,574)					(15,351)	46,673	31,322
Adjustments between accounting basis and funding basis under regulations (note 10)	(77,009)		45,574		13,433	(2,497)	1,881	(18,618)	18,618	0
Transfers to / (from) earmarked reserves (note 9)	46,786	(46,786)						0		0
(Increase) / Decrease in Year	0	(46,786)	0	0	13,433	(2,497)	1,881	(33,969)	65,291	31,322
Balance at 31 March 2021	(10,066)	(134,549)	(2,000)	0	(10,656)	(2,497)	(48,752)	(208,520)	(711,210)	(919,730)

	General Fund Balance £000	Earmarked Reserves £000	Housing Revenue Account £000	Earmarked HRA Reserves £000	Capital Receipts Reserve £000	Major Repairs Reserve £000	Capital Grants & Contributions Unapplied £000	Total Usable Reserve £000	Unusable Reserves £000	Total Authority Reserves £000
Balance at 1 April 2019	(10,066)	(88,666)	(2,000)	0	(24,314)	0	(29,230)	(154,276)	(802,502)	(956,778)
<u>Movement in Reserves during 2019/20</u>										
Total Comprehensive Income and Expenditure	26,388		5,462					31,850	(26,124)	5,726
Adjustments between accounting basis and funding basis under regulations (note 10)	(25,485)		(5,462)		225		(21,403)	(52,125)	52,125	0
Transfers to / (from) earmarked reserves (note 9)	(903)	903						0		0
(Increase) / Decrease in Year	0	903	0	0	225	0	(21,403)	(20,275)	26,001	5,726
Balance at 31 March 2020	(10,066)	(87,763)	(2,000)	0	(24,089)	0	(50,633)	(174,551)	(776,501)	(951,052)

THE FINANCIAL STATEMENTS

Balance Sheet

<u>31 March 2020</u>		<u>Notes</u>	<u>31 March 2021</u>
£000			£000
1,461,929	Property, Plant & Equipment	12	1,527,916
190,249	Heritage Assets	13	190,249
118,145	Investment Properties	14	113,098
7,045	Intangible Assets	15	8,720
29,502	Long Term Investments	17b	27,310
3,733	Long Term Debtors	18	3,625
1,810,603	Non Current Assets		1,870,918
436	Short Term Investments	17b	2,434
0	Assets held for Sale	16	0
907	Stock (Inventories)		1,091
47,590	Short Term Debtors	18	71,524
31,217	Cash & Cash Equivalents	19	30,130
80,150	Current Assets		105,179
(4,352)	Cash & Cash Equivalents	19	(2,475)
(364)	Deferred Liabilities	38	(364)
(55,214)	Short Term Borrowing	17b	(28,417)
(72,857)	Short Term Creditors	20	(126,274)
(8,773)	Provisions	21	(5,936)
(141,560)	Current Liabilities		(163,466)
(51,002)	Long Term Creditors	17b	(47,556)
(6,516)	Provisions	21	(5,383)
(222,597)	Long Term Borrowing	17b	(213,847)
	Other Long Term Liabilities		
(13,462)	- Deferred Liabilities	38	(13,098)
(12,418)	- Cap. Grants & Conds Receipts in Advance	37a	(26,298)
(492,146)	- Pension Fund Liability	34c	(586,719)
(798,141)	Long Term Liabilities		(892,901)
951,052	Net Assets		919,730
	Useable Reserves		
(24,089)	Useable Capital Receipts Reserve	10	(10,656)
(50,633)	Cap. Grants & Conds Unapplied	10	(48,752)
(87,763)	Earmarked Revenue Reserves	9	(134,549)
(10,066)	General Fund Balance	10	(10,066)
(2,000)	Housing Revenue Account Balance	10	(2,000)
0	HRA Major Repairs Reserve	10	(2,497)
(174,551)			(208,520)
	Unuseable Reserves		
(411,319)	Revaluation Reserve	22a	(414,815)
531	Pooled Fund Adjustment Account		719
(861,080)	Capital Adjustment Account	22b	(922,500)
113	Financial Instruments Adjustment Account		38
492,146	Pension Reserve	22c	586,719
1,159	Collection Fund Adjustment Account	22d	25,790
1,949	Accumulated Absences Account	22e	3,905
	Dedicated Schools Grant Adjustment Account	22f	8,934
(776,501)			(711,210)
(951,052)	Total Reserves		(919,730)

THE FINANCIAL STATEMENTS

Cash Flow Statement

<u>2019/20</u>		<u>2020/21</u>
£000		Notes £000
(31,850)	Net surplus or (deficit) on the provision of services	15,351
98,271	Adjustment to surplus or deficit on the provision of services for non cash movements	23 a) 112,804
<u>(69,872)</u>	Adjust for items included in the net surplus or deficit on the provision of services that are investing and financing activities	23 a) <u>(35,660)</u>
(3,451)	Net Cash Flows From Operating Activities	92,495
(22,353)	Net Cash flows from Investing Activities	23 c) (30,653)
29,890	Net Cash flows from Financing Activities	23 d) <u>(61,052)</u>
4,086	Net Increase / (Decrease) in Cash and Cash Equivalents	790
22,779	Cash and cash equivalents at the beginning of the reporting period	23 e) 26,865
<u>26,865</u>	Cash and Cash Equivalents at the End of the Reporting Period	23 e) <u>27,655</u>

NOTES TO THE CORE FINANCIAL STATEMENTS

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NOTES TO THE CORE FINANCIAL STATEMENTS

1. Accounting Policies

a) General Principles

These Financial Statements summarise the Council's transactions for the 2020/21 financial year and its position at the year-end of 31 March 2021. The Council is required to prepare an annual Statement of Accounts by the Accounts and Audit Regulations 2015 (as amended by the Accounts and Audit (Coronavirus) (Amendment) Regulations 2021), which those Regulations require to be prepared in accordance with proper accounting practices. These practices under Section 21 of the 2003 Act primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2020/21, supported by International Financial Reporting Standards (IFRS) and statutory guidance issued under Section 12 of the 2003 Act.

The accounting convention adopted in these Financial Statements is principally historical cost, modified by the revaluation of certain categories of non-current assets and financial instruments.

The accounts are prepared on a going concern basis, that is, on the assumption that the functions of the Council will continue in operational existence for the foreseeable future. The Code requires that local authorities prepare their accounts on a going concern basis, as they can only be discontinued under statutory prescription, and there is no notice from Government to that effect.

The Council carried out a detailed assessment of the likely impact of COVID-19 on its financial position for 2021/22 and considered its likely impact on future years as part of its medium term financial planning. Whilst the budget for 2021/22 was balanced, the medium term financial forecast indicates a budget shortfall of £22.5M for 2022/23. This is being addressed through work during 2021/22 to review the budget, the financial pressures faced and opportunities for savings. There is headroom available within reserves that could be used to help balance the budget in the short term if measures identified do not address the full extent of the shortfall.

The Council has also undertaken cashflow forecasting for the foreseeable future period. Our projections for the revenue budget show that the Council has sufficient liquidity over the period to the end of May 2022, with positive cash balances throughout. There is no identified need for borrowing to manage the working capital for revenue balances. The Council does have a significant capital programme for the same period and there was always an intent to borrow, from the PWLB, as one of a source of funds for this programme. When taken into the cashflow forecast this situation does not change and PWLB borrowing will be required. The timing and extent of the capital programme is being reviewed as part of the in-year budget review, however we are of the view that PWLB loans will be available if required.

For these reasons, the Council does not consider that there is material uncertainty in respect of its ability to continue as a going concern for the period of 12 months from the date of approval of these financial statements.

b) 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 contracts with service recipients, whether for services or the provision of goods, is recognised when (or as) the goods or services are transferred to the service recipient in accordance with the performance obligations in the contract
- Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption, they are carried as inventories on the Balance Sheet
- Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made
- Interest receivable on investments and payable on borrowings is accounted for retrospectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract

NOTES TO THE CORE FINANCIAL STATEMENTS

- 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.

c) 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 highly liquid investments that mature within one working day from the date of acquisition and are readily convertible to known amounts of cash with insignificant risk or 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.

d) Prior Period Adjustments, Changes in Accounting Policies, 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.

e) Charges to Revenue for Non-current Assets

Services, support services and trading accounts 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; and
- Amortisation of intangible assets attributable to the service.

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

f) Council Tax and Non-Domestic Rates (NDR)

The Council acts as an agent, collecting Council Tax and Non-Domestic Rates (NDR) on behalf of the major preceptors (including government for NDR) and, as a principal, collecting Council Tax and NDR for itself. Billing authorities are required by statute to maintain a separate fund (the "Collection Fund") for the collection and distribution of amounts due in respect of Council Tax and NDR. Under the legislative

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framework for the Collection Fund, billing authorities, major preceptors and central government share proportionately the risks and rewards that the amount of Council Tax and NDR collected could be less or more than predicted.

Accounting for Council Tax and NDR

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

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

g) Dedicated Schools Grant Deficit

The Local Authorities (Capital Finance and Accounting)(England)(Amendment) Regulations 2020 establish new accounting practices in relation to the treatment of local authorities' schools budget deficits such that where a local authority has a deficit on its schools budget relating to its accounts for a financial year beginning on 1 April 2020, 1 April 2021 or 1 April 2022, it must not charge the amount of that deficit to a revenue account. Instead the deficit (including the accumulated deficit as at 31 March 2020) is charged to an unusable reserve the Dedicated Schools Grant Adjustment Account by a transfer from the General Fund Balance in the Movement in Reserves Statement.

h) Employee Benefits

Benefits Payable during Employment

Short-term employee benefits are those due to be settled within 12 months of the year-end. They include such benefits as wages and salaries, paid annual leave and paid sick leave, bonuses and non-monetary benefits for current employees and are recognised as an expense for services in the year in which employees render service to the Council. An accrual is made for the cost of Teacher's annual leave entitlement not taken by the year end, in accordance with CIPFA's methodology. The accrual is charged to the Surplus or Deficit on the Provision of Services, but then reversed out through the MiRS so that holiday benefits are charged to revenue in the financial year in which the holiday absence occurs. An accrual has also been made in 2020/21 in respect of annual leave carried forward by non-teaching staff as carry forward balances were much higher than in previous years due to COVID-19.

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. They are charged on an accruals basis to the appropriate service in the Comprehensive Income and Expenditure Statement when the Council is demonstrably committed to the termination of the employment of an officer or group of officers or making an offer to encourage voluntary redundancy.

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 MiRS, appropriations are required to and from the Pensions Reserve to remove the notional debits and credits for pension enhancement termination benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end.

Post-Employment Benefits

Employees of the Council are predominantly members of two separate pension schemes:

NOTES TO THE CORE FINANCIAL STATEMENTS

- The Local Government Pension Scheme, administered by Hampshire County Council; and
- The Teachers' Pension Scheme, administered by Capita Teachers' Pensions on behalf of the Department for Education (DfE).

Both schemes provide defined benefits to members (retirement lump sums and pensions), earned as employees working for the Council.

Local Government Pension Scheme

The Local Government Pension Scheme (LGPS) is accounted for as a defined benefit scheme:

- The liabilities of the Hampshire County Council 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 earnings for current employees
- Liabilities are discounted to their value at current prices, using a discount rate based on the AA corporate bond rate as required by the Code
- The assets of the Hampshire County Council pension fund attributable to the Council are included in the balance sheet at 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:

Service Cost comprising:

- Current Service Cost – The increase in liabilities as a result of years of service earned this year, allocated in the Comprehensive Income and Expenditure Statement to the revenue accounts of services for which the employees worked
- Past Service Cost – The increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years, debited to the Surplus or Deficit in the Comprehensive Income and Expenditure Statement; and
- Net Interest on the Net Defined Benefit Liability (Asset) – i.e. Net interest expense for the Council. The change during the period in the net defined benefit liability (asset) that arises from the passage of time charged to the Financing and Investment Income and Expenditure 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 net defined benefit liability (asset) at the beginning of the period – taking into account any changes in the net defined liability (asset) during the period as a result of contributions and benefit payments.

Remeasurements comprising:

- Return on Planned Assets – Excluding amounts included in net interest on the net defined benefit liability (asset) – charged to the Pension Reserve as Other Comprehensive Income and Expenditure
- Actuarial Gains and Losses – Changes in the net pension liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions - charged to the Pension Reserve as Other Comprehensive Income and Expenditure; and
- Contributions Paid to Hampshire County Council Pension Fund – cash paid as employer's contributions to the pension fund in settlement of liabilities, not accounted for as an expense.

In relation to retirement benefits, statutory provisions require the General Fund balance to be charged with the amount payable by the Council to the pension fund in the year, not the amount calculated according to

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the relevant accounting standards. In the MiRS this means there are appropriations to and from the Pension Reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund and any amounts payable to the fund but unpaid at the year-end. The negative balance that arises on the Pension 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.

Teachers' Pension Scheme

Liabilities for the Teachers' scheme benefits cannot ordinarily be identified specifically to the Council. The scheme is therefore accounted for as if it were a defined contribution scheme, and no liability for future payments of benefits is recognised in the Balance Sheet. The relevant service line with the Comprehensive Income and Expenditure Statement is charged in year.

i) 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 Financial Statements are 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 Financial Statements are adjusted to reflect such events.
- Those that are indicative of conditions that arose after the reporting period – The Financial Statements are 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 Financial Statements.

j) 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 are initially measured at fair value and are 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.

For most of the borrowings that the Council has 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.

Gains and losses on the repurchase or early settlement of borrowing are credited and debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement in the year of repurchase/settlement.

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

NOTES TO THE CORE FINANCIAL STATEMENTS

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); and
- fair value through other comprehensive income (FVOCI) – not applicable to the Council.

Financial Assets Measured at Amortised Cost

Financial assets measured at amortised cost are recognised on the Balance Sheet when the Council becomes party to the contractual provisions of the financial instrument and are initially measured at fair value. They are subsequently measured at their amortised cost. Annual credits to 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 financial assets held by the Council, this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and that interest credited to the Comprehensive Income and Expenditure Statement is the amount receivable for the year in the loan agreement.

Any gains and losses that arise on de-recognition of an asset are credited or debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

The Council recognises expected credit losses on all of its financial assets held at amortised cost, either on a 12-month or lifetime basis. Only 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. Where credit risk has increased significantly since an instrument was initially recognised, losses are assessed on a lifetime basis. Where credit risk has not increased significantly or remains low, losses are assessed on the basis of 12-month expected losses.

Financial Assets Measured at Fair Value through Profit of Loss

Financial assets that are measured at FVPL are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured and carried at fair value. Fair value gains and losses are recognised as they arrive in the Surplus or Deficit on the Provision of Services.

The fair value measurements of the financial assets are based on the following techniques:

- Instruments with quoted market prices – the market price
- Other instruments with fixed and determinable payments – discounted cash flow analysis

k) Government Grants and Other Contributions

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

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

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

Monies advanced as grants and contributions for which conditions have not been satisfied are carried in the Balance Sheet as creditors. When conditions are satisfied, the grant or contribution is credited to the

NOTES TO THE CORE FINANCIAL STATEMENTS

relevant service line (attributable revenue grants and contributions) or the Taxation and Non-Specific Grant Income (non-ring fenced revenue grants and all capital grants) line in the Comprehensive Income and Expenditure Statement.

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

Business Improvement District (BID)

The “Go Southampton” BID is a 5-year scheme that commenced in April 2017 and applies across the City Centre. The scheme is funded by an annual levy paid by around 600 non-domestic ratepayers in that area. The Council acts as agent under the scheme.

Community Infrastructure Levy (CIL)

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

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

I) Heritage Assets

The Council’s Heritage Assets are mainly held in the Council’s museums, although a number of Ancient Monuments (including the City Walls) are also held.

Heritage Assets are held principally for their contribution to knowledge and/or culture. They are recognised and measured (including the treatment of revaluation gains and losses) in accordance with the Council’s accounting policies on Property, Plant and Equipment. However, some of the measurement rules are relaxed in relation to Heritage Assets as detailed below.

Heritage Assets on the Balance Sheet

- Works of Art – the Art Collection, which includes paintings (both oil and watercolour), sketches, and sculptures, is ‘designated’ (i.e. officially recognised as significant) and numbers approximately 3,500 items, most of which have been acquired through donations.
- The Collection has been brought onto the Balance Sheet based on Insurance Values.
- Ancient Monuments – the Council has some Ancient Monuments including:
 - The Bargate; and
 - Town Walls and various Vaults.

The Council’s Ancient Monuments have been brought onto the Balance Sheet based on Historical Cost.

Heritage Assets not on the Balance Sheet

- Archaeology – The main component of the Archaeology Collections is the excavation archives which result from all archaeological investigations carried out within the City boundary, from full scale excavations, to watching briefs for building surveys. The wider Collection comprises objects, paper records, plans, drawings, photographs, reports and increasingly, digital data. Nearly 2,000 of such “site archives” have been deposited.
- Archives – This comprises a Catalogue listing – including descriptions – of over 10,000 accessioned items. The items range from individual documents to huge collections of material (e.g. 1.25 million

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cards in the Central Index of Merchant Seaman). It is estimated that the Archives take up approximately 2 linear miles of shelving; and

- Local and Maritime Collections – Accession Registers dating back to 1912, the date of the founding of Tudor House as Southampton's first municipal museum, running through to the present day, are the main record for this area of collections. It is estimated there are between two and three hundred thousand items in the collections. About 10% of these items are on databases or spreadsheets, the rest are still on paper records.

The Council does not consider that reliable cost or valuation information can be obtained for the items noted above. This is because of the diverse nature of the assets held and lack of comparable market values.

m) Interests in Companies and Other Entities

The Council does not have any material interests in companies and other entities that have the nature of subsidiaries, associates and joint ventures. Therefore there is no requirement to produce group accounts.

Non-material interests in companies and other entities are recorded as financial assets at cost less any impairment.

n) 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 the 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. Investment properties are not depreciated but are revalued annually according to market conditions at the year-end. Gains and losses on revaluation are posted to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The same treatment is applied to gains and losses on disposal.

Rentals received in relation to investment properties are credited to the Financing and Investment Income line and result in a gain for the General Fund Balance. However, revaluation and disposal gains and losses are not permitted by statutory arrangements to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the MiRS and posted to the CAA and (for any sale proceeds greater than £10,000) the Useable Capital Receipts Reserve.

o) Joint Operations

Joint operations are arrangements where the parties that have control of the arrangement have rights to the assets and obligations for the liabilities relating to the arrangement. The activities undertaken by the Council in conjunction with other joint operators involve the use of the assets and resources of those joint operators. In relation to its interest in a joint operation, the Council as a joint operator recognises:

- Its assets, including its share of any assets held jointly
- Its liabilities, including its share of any liability incurred jointly
- Its revenue from the sale of its share of the output arising from the joint operation
- Its share of the revenue from the sale of the output by the joint operation
- Its expenses, including its share of any expenses incurred jointly.

NOTES TO THE CORE FINANCIAL STATEMENTS

p) Leases

Leases are classified as finance leases where the terms of the lease substantially transfer 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

The Council does not have any material finance or operating leases, where it is the lessee.

The Council as Lessor

- Finance Leases – the Council does not have any material finance leases where it is the lessor, although has entered into a number of Private Finance Initiative (PFI) arrangements (see below); and
- Operating Leases – where the Council grants an operating lease over a property or an item of plant or equipment, the asset is retained on 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.

q) Overheads and Support Services

The cost of overheads and support services are charged to service segments in accordance with the Council's arrangements for accountability and financial performance.

r) Property, Plant and Equipment

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

Recognition

Expenditure on the acquisition, creation or enhancement of Property, Plant and Equipment is capitalised on an accruals basis, provided that it is probable that the future economic benefits or service potential associated with the item will flow to the 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; and
- 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 Council does not capitalise borrowing costs incurred whilst assets are under construction.

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

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amount of the asset given up by the Council.

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

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

- Infrastructure and Community Assets – Depreciated historical cost.
- Dwellings – Current value, determined using the basis of existing use value for social housing (EUV-SH).
- Assets Under Construction – Historic cost
- All Other Assets – 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 (DRC) is used as an estimate of current value.

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

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

When decreases in value are identified, they are accounted for as follows:

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

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

Impairment

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

Where impairment losses are identified, they are accounted for as follows:

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

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

Depreciation

Depreciation is provided for on all Property, Plant and Equipment assets by the systematic allocation of

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their depreciable amounts over their useful lives. An exception is made for assets without a determinable finite useful life, (i.e. freehold land and certain Community Assets), and assets that are not yet available for use, (i.e. assets under construction).

Depreciation is calculated on the following bases:

- Dwellings and Other Buildings – Straight-line allocation over the useful life of the property as estimated by the valuer.
- Vehicles, Plant, Furniture and Equipment – A percentage of the value of each class of assets in the Balance Sheet, as advised by a suitably qualified officer.
- Infrastructure – Straight-line allocation up to 40 years.

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 to the extent that the components asset lives differ significantly.

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 CAA.

Disposals and Non-Current Assets Held for Sale

When it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction rather than through its continuing use, it is reclassified as an Asset Held for Sale. The asset is revalued immediately before reclassification and then carried at the lower of this amount and fair value less costs to sell. Where there is a subsequent decrease to fair value less costs to sell, the loss is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Gains in fair value are recognised only up to the amount of any previous losses recognised in the Surplus or Deficit on Provision of Services. Depreciation is not charged on Assets Held for Sale.

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

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

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

Amounts received for a disposal in excess of £10,000 are categorised as capital receipts. A proportion of capital receipts relating to housing disposals is payable to the Government. The balance of receipts remains within the Capital receipts Reserve and can then only be used for new capital investment (or set aside to reduce the Council's underlying need to borrow (the capital financing requirement). Receipts are transferred to the Useable Capital Receipts from the General Fund Balance in the MiRS.

The written-off value of disposals is not a charge against council tax, as the cost of Property, Plant and Equipment is fully provided for under separate arrangements for capital financing. Amounts are appropriated to the CAA from the General Fund Balance in the MiRS.

s) Private Finance Initiatives (PFI) and Similar Contracts

PFI and similar contracts are agreements to receive services, where the responsibility for making available the property, plant and equipment needed to provide the services passes to the PFI contractor. As the Council is deemed to control the services that are provided under its PFI schemes, and as ownership of the property, plant and equipment will pass to the Council at the end of the contracts for no additional

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charge, the Council carries the assets used under the contracts on its Balance Sheet as part of Property, Plant and Equipment.

The original recognition of these assets at fair value (based on the cost to purchase the property, plant and equipment) was balanced by the recognition of a liability for amounts due to the scheme operator to pay for the capital investment.

Non-current assets recognised on the Balance Sheet are revalued and depreciated in the same way as property, plant and equipment owned by the Council.

The amounts payable to the PFI operators each year are analysed into five elements:

- Fair Value of the Services Received during the Year – Debited to the relevant service in the Comprehensive Income and Expenditure Statement.
- Finance Cost – A percentage interest charge on the outstanding Balance Sheet liability, debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.
- Contingent Rent – Increases in the amount to be paid for the property arising during the contract, debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.
- Payment Towards Liability – Applied to write down the Balance Sheet liability towards the PFI operator (the profile of write-downs is calculated using the same principles as for a finance lease).
- Lifecycle Replacement Costs – Proportion of the amounts payable are posted to the Balance Sheet as a prepayment and then recognised as additions to Property, Plant and Equipment when the relevant works are eventually carried out.

t) 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.

Provisions are charged as an expense to the appropriate service line in the Comprehensive Income and Expenditure Statement in the year that the Council becomes aware of the obligation, and are measured at the best estimate at the balance sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

When payments are eventually made, they are charged to the provision carried in the Balance Sheet. Estimated settlements are reviewed at the end of each financial year and 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 Financial Statements.

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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 Financial Statement where it is probable that there will be an inflow of economic benefits or service potential.

u) Reserves

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

Certain reserves are kept to manage the accounting processes for non-current assets, financial instruments, retirements and employee benefits, and the deficit on the Dedicated Schools Grant and do not represent usable resources for the Council - these reserves are explained in the relevant policies.

v) Revenue Expenditure Funded from Capital under Statute (REFCUS)

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

w) Schools

The Code of Practice on Local Authority Accounting in the United Kingdom specifies that all schools maintained by the Council are deemed to be under the Council's control. The transactions and balances attributable to the governing bodies of the maintained schools have been consolidated into the Council's financial statements, applying accounting policies for recognition and measurement consistent with those applied by the Council to its own income, expenditure, cash flows, assets and liabilities. Transactions and balances between the Council and schools have been eliminated.

x) Value Added Tax (VAT)

All Income and expenditure, whether revenue or capital in nature, excludes any amounts related to VAT, as all VAT collected is payable to HMRC and the Council – using its 'Section 33 status' within the VAT Act 1994 – is able to recover all VAT paid.

y) Fair Value Measurement

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

- i) in the principal market for the asset or liability; or

NOTES TO THE CORE FINANCIAL STATEMENTS

ii) in the absence of a principal market, in the most advantageous market for the asset or liability.

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

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

The Council uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

Inputs to the valuation techniques in respect of assets and liabilities for which fair value is measured or disclosed in the Council's 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 measurement date
- Level 2 – inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly
- Level 3 – unobservable inputs for the asset or liability.

z) Rounding Convention

Unless otherwise stated the convention used in these Financial Statements is to round amounts to the nearest thousand pounds. All totals are the rounded additions of unrounded figures, and therefore may – from time-to-time – not be the strict sums of the figures presented in the text or tables.

2. Accounting Standards That Have Been Issued But Not Yet Adopted

The Code requires the disclosure of information relating to the expected impact of an accounting change that will be required by a new standard that has been issued but not yet adopted. This applies to the adoption of new or amended standards within the 2021/22 Code. New standards that are expected to be introduced in the 2021/22 Code that apply from 1 April 2021 are:

- Definition of a Business: Amendments to IFRS 3 *Business Combinations*
- Interest Rate Benchmark Reform – Phase 1: Amendments to IFRS 9 *Financial Instruments*, IAS 39 *Financial Instruments: Recognition and Measurement* and IFRS 7 *Financial Instruments: Disclosures*
- Interest Rate Benchmark Reform – Phase 2: Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 *Insurance Contracts* and IFRS 16 *Leases*

None of these amendments are anticipated to have a material impact on the Council's financial performance and financial position.

3. Critical Judgements in Applying Accounting Policies

In applying the accounting policies set out in Note 1 (Accounting Policies), the Council has had to make certain judgements about complex transactions or those involving uncertainty about future events.

The critical judgements that have the most significant effect on the amounts in the Financial Statements are:

- **Local Government Funding** – There is a high degree of uncertainty about future levels of funding for local government, with the deferral for a second year running of the Government's medium term Spending Review, postponement of the implementation of the Fair Funding Review, delays to the Adult Social Care funding green paper and uncertainties over the impact of the COVID-19 pandemic and gradual lifting of restrictions on major income streams. However, the Council has determined that

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this uncertainty is not yet sufficient to provide an indication that the assets of the Council might be impaired as a result of a need to close facilities and reduce levels of service provision.

- **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 that are subsidised by the Council it is deemed to be a Property, Plant and Equipment asset. If there is no subsidy and/or a full market rent being charged this would indicate that the asset is an Investment Property. The classification determines the valuation method used.
- **Accounting for Schools; Balance Sheet Recognition** – The Council recognises schools in line with the provisions of the Code, and they are recognised on the Balance Sheet only if the future economic benefits or service potential associated with the school will flow to the Council. The Council regards that the economic benefits or service potential of a school flows to the Council where the Council owns the property, has the ability to employ the staff of the school, and is able to set the admission criteria.

There are currently six types of schools:

- Community schools,
- Voluntary Aided (VA) schools,
- Voluntary Controlled (VC) schools,
- Foundation / Trust schools,
- Academies, and
- Free Schools

Community schools are owned by the Council, staff are appointed by the Council, who also sets the admission criteria. Therefore, these schools are recognised on the Council's Balance Sheet.

VA schools are maintained schools and often have a religious character with the school being owned by the religious body. These schools are paid capital funding on a similar basis to other categories of school, but the governing body usually pays at least 10% of the costs of capital work. Responsibility for work to VA school premises is shared between the school's governing body and the Council. In simple terms the Council has responsibility for the playing fields and the governing body is liable for all other capital expenditure. Staff in VA schools are appointed by the schools' governing body. The value of these schools is not included in the Council's Balance Sheet. VC schools are owned by the religious body, staff are appointed by the governors, but are employed by the Council, who also sets the admission criteria. However, like VA Schools, the value of these schools is not included within the Council's Balance Sheet.

Staff in Foundation/Trust, Academy and Free schools are appointed by the schools' governing body, which also set the admission criteria. The Council does not receive the economic benefit or service potential of these schools and does not therefore recognise them on the Council's Balance Sheet.

The table below illustrates the number and type of schools:

Status as at 31 March 2021	Infant	Junior	Primary	Secondary	Other	Total
Academies	6	5	11	5	2	29
Catholic Voluntary Aided Schools			2	1		3
Church of England Voluntary Aided Schools			1			1
Church of England Voluntary Controlled Schools			3			3
Community Schools	3	2	13	3	4	25
Foundation Trust	1	1	7	3	1	13
Free Schools			1			1
Grand Total	10	8	38	12	7	75

- **Accounting for Schools - Transfers to Academy Status** – When a school that is held on the Council's Balance Sheet transfers to Academy status the Council accounts for this as a disposal for nil

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consideration, on the date that the school converts to Academy status, rather than as an impairment on the date that approval to transfer to Academy status is announced. Where the Council has entered into construction contracts for replacement schools on behalf of an Academy, the Council charges the cost of construction against Assets Under Construction (part of Property, Plant and Equipment), whilst the Academy is constructed. Once the construction is complete the asset is transferred to Other Land and Buildings, (within Property Plant & Equipment), on the date of transfer to an Academy the Council accounts for this as a disposal for nil consideration.

- **Heritage Assets** – The Council does not recognise heritage assets on the Balance Sheet where information on cost or valuation is not available and cannot be obtained at a cost which is commensurate with the benefits to users of the financial statements. This applies to archives, archaeology collections and local and maritime collections.
- **Lease Classifications** – The Council has made judgements on whether lease arrangements are finance or operating leases, e.g. the treatment of all property ground rents as operating leases. These judgements are based on an overall assessment of a series of tests designed to assess whether the risks and rewards of ownership have been transferred from the lessor to the lessee.
- **PFI and Similar Contracts** – The Council has made judgements as to whether PFI and Similar Contracts require to be accounted for on Balance Sheet. These judgements are based on whether the Council controls or regulates what services the operator provides with the infrastructure, to whom it must provide them and at what price, and whether the Council controls through ownership, beneficial entitlement or otherwise any significant residual interest in the infrastructure at the end of the arrangement – see Note 32 PFI and Similar Contracts for further details.
- **Financial Assets** – The Council has assessed that its investment in the CCLA Local Authorities Property Fund should be measured at Fair Value through Profit and Loss.
- **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).
- **Interests in Other Entities** – The Council has assessed that an interest in another entity falls within the group boundary of the Council on the grounds of control and significant influence in line with the Code. However, the Council's interest is not sufficiently material to warrant producing consolidated financial statements when reviewing both quantitative and qualitative information. In order to ensure compliance with the Code, a range of disclosures have been made in other sections of the accounts.
- **Providing for Potential Liabilities** – The Council has made judgements about the likelihood of pending liabilities and whether a provision is required or a contingent liability noted. The judgements are based on the degree of certainty around the results of pending legal actions.
- **COVID-19 Funding** – the Council has received additional grant funding as part of the government's response to the COVID-19 pandemic, some to cover the Council's own expenditure/income shortfalls and some for passing on to local businesses and individuals. The Council has made judgements about whether it is acting as principal or agent in relation to this funding. Where the Council is acting as principal the grant receipts have been recognised as income and associated payments as expenditure. Where the Council is acting as agent the grant receipts and corresponding payments are not included in the Comprehensive Income and Expenditure Statement (CIES), other than any element of the funding relating to administration costs. Further details of the COVID-19 grants received, including those where the Council is acting as agent and they are not recognised in the CIES, are provided in Note 37 Capital and Revenue Grants & Contributions, Receipts in Advance.

4. Assumptions Made About the Future and Other Major Sources of Estimation Uncertainty

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

NOTES TO THE CORE FINANCIAL STATEMENTS

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

Item	Uncertainties	Effect if Actual Results Differ from Assumptions
Property, Plant and Equipment	The Council carries out a rolling programme of valuations for PPE required to be measured at current value and £1,120.6M of assets were valued at current value in 2020/21.	A 1% change to the PPE valuations made for the year would change the reported value of PPE by £11.2M.
Investment Property	<p>The Council values its Investment Property annually and the fair value at 31 March 2021 was £113.1M.</p> <p>It remains unclear what impact the COVID-19 pandemic will have on property values and there is a risk of material changes during the next year.</p> <p>Assets are depreciated over useful lives that are dependent on assumptions about the level of repairs and maintenance that will be incurred in relation to individual assets. The current economic climate makes it uncertain that the Council will be able to sustain its current spending on repairs and maintenance, bringing into doubt the useful lives assigned to assets.</p>	<p>A 1% change to the IP valuations would change the report value of IP by £1.1M.</p> <p>If the useful life of assets is reduced, depreciation increases and the carrying amount of the assets falls. It is estimated that the annual depreciation charge for buildings would increase by £1.3M if the useful lives were reduced by one year.</p>
Arrears	At 31 March 2021, the Council had a gross balance of trade debtors of £23.0M. The current level of impairment allowance (Bad Debt Provision) based on previous experience, current and forecast economic conditions, is £7.5M, which represents 33% of the balance.	If collection rates were to deteriorate, increasing our impairment rate (bad debt) to 50% of the balance, it would require an additional £4.0M to set aside as an allowance.
NDR Appeals Provision	<p>Since the introduction of Business Rates Retention Scheme from 1 April 2013, Local Authorities are liable for successful appeals against business rates charged to businesses in earlier years. Therefore, a provision has been recognised for the best estimate of the amount businesses have been overcharged up to the 31 March 2021, the Council's share of which is £8.7M.</p> <p>The estimate is based on an assessment by an external advisor of the likely success of the appeals/challenge outstanding on the Valuation Office Agency (VOA) list and projected appeals. The estimate does not include an amount for challenges for COVID-19 related material changes in circumstances, following ministerial announcement in March 2021 that government will legislate to rule these out.</p>	An increase or reduction of the appeals provision estimate of 10%, would increase/(reduce) the year end NDR appeals provision by £0.9M.

NOTES TO THE CORE FINANCIAL STATEMENTS

Pensions Liability	<p>Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the Council with expert advice about the assumptions to be applied.</p>	<p>The approximate impact of changing key assumptions on the present value of the funded defined benefit obligation as at the 31 March 2021 and the projected service cost for the year ending 31 March 2021 is set out below.</p> <p>In each case, only the assumption mentioned is altered; all other assumptions remain the same as shown within Defined Benefit Pension Schemes Note 34 e).</p>
Funded LGPS Benefits Discount rate assumption		
Adjustment to discount rate	+0.1% p.a.	-0.1% p.a.
Present value of total obligations (£M's)	1,581.431	1,649.275
% change of present value of total obligation	-2.1%	2.1%
Projected service cost (£M's)	60.631	64.962
Approximate % change in projected service cost	-3.4%	3.5%
Rate of general increase in salaries		
Adjustment to salary increase rate	+0.1% p.a.	-0.1% p.a.
Present value of total obligations (£M's)	1,618.584	1,612.122
% change of present value of total obligation	0.2%	-0.2%
Projected service cost (£M's)	62.765	62.765
Approximate % change in projected service cost	0.0%	0.0%
Rate of increase to pensions in payment and deferred pensions assumption, and rate of revaluation of pension accounts assumption		
Adjustment to pension increase rate	+0.1% p.a.	-0.1% p.a.
Present value of total obligations (£M's)	1,646.045	1,584.661
% change of present value of total obligation	1.9%	-1.9%
Projected service cost (£M's)	64.962	60.631
Approximate % change in projected service cost	3.5%	-3.4%
Post retirement mortality assumption		
Adjustment to mortality age rating assumption *	-1 year	+1 year
Present value of total obligations (£M's)	1,673.506	1,558.816
% change of present value of total obligation	3.6%	-3.5%
Projected service cost (£M's)	65.276	60.254
Approximate % change in projected service cost	4.0%	-4.0%
* A rating of +1 year means that members are assumed to follow the mortality pattern of the base table for an individual that is 1 year older than them		

NOTES TO THE CORE FINANCIAL STATEMENTS

5. Prior Period Adjustments

The service analysis in the Expenditure and Funding Analysis, Comprehensive Income and Expenditure Statement and Note 8 Expenditure and Funding Analysis is based on the Cabinet portfolios in place from June 2020. Prior year comparatives have been updated to reflect the new structure. The restatement also reflects that the Coroners Service has been moved to Stronger Communities from Other Operating Expenditure and a correction between Investment Properties income and Service income (£1.520M). In the EFA the £0.903M deficit on Net Expenditure Chargeable to the General Fund and HRA Balances, £30.947M deficit for Adjustments between the Funding and Accounting Basis and £31.850M deficit for Net Expenditure in the CIES have not changed as a result of the 2019/20 restatement. In the CIES the £712.322M Expenditure, £680.472M (-) Income and £31.850M Deficit on the Provision of Services have not changed as a result of the 2019/20 restatement.

Trade debtors as at 31 March 2020 in Note 17 Financial Instruments should have been shown gross of the impairment allowance, not net. The balance has been restated from £17.855M to £24.685M.

No other prior period adjustments have been made.

6. Other Items of Expenditure and Income

Income and Expenditure relating to COVID-19

The accounting arrangements for business rates income mean that the General Fund Balance at 31 March 2021 excludes the loss for rate reliefs introduced by the government in 2020/21 to support particular business sectors during the pandemic. This loss will be charged to the General Fund in 2021/22 as part of the deficit on the Collection Fund being recouped in future years. However, the Council received £25.6M of government grant in 2020/21 to compensate for this loss. This material grant income has been shown separately within Taxation and Non-Specific Grant Income on the face of the CIES. The additional S31 business rates reliefs grant over and above what was budgeted for in 2020/21 has been transferred to the Revenue Grants Reserve - General to be used in 2021/22 to offset the business rates deficit that will be charged to the General Fund (see Note 9 Earmarked Reserves).

Details of general and specific revenue grant funding for COVID-19 is provided in Note 37 Capital and Revenue Grants & Contributions, Receipts in Advance. In the CIES specific grant income is included within the Cost of Services and general grant income is included within Taxation and Non-Specific Grant Income. Where the Council has acted as an agent of the government in administering grants to businesses, social care providers and individuals these are excluded from the CIES.

The Cost of Services includes expenditure incurred relating to the pandemic. Some of these costs are for activities that are outside of the norm for the Council, such as COVID-19 outbreak control and management (£2.97M). Additional costs due to the pandemic on normal service activity which form part of the Cost of Services include care costs for clients discharged from hospital (£3.4M, of which £2.2M was funded by the CCG), payments to adult social care providers to help meet COVID-19 related costs (£2.1M), additional children's and adults social care staffing costs (£2.2M) and council tax hardship discounts for eligible working age tax payers (£2.76M). Some of these costs have been met from specific government grants.

Revaluation and Impairment of Property Plant and Equipment

The Council, as in prior years, discloses downward and upward revaluations (through CIES) and impairments of General Fund and HRA properties separately. These items are disclosed separately within the CIES to avoid distortion of comparisons between years.

Housing Improvement Loans

An adjustment was made in 2019/20 to reduce Revenue Expenditure Funded by Capital under Statute (REFCUS) and recognise outstanding home improvement loans as long term debtors. This was a correction to previous accounting treatment that was not treated as a prior period adjustment because the amount involved was not material to the accounts.

NOTES TO THE CORE FINANCIAL STATEMENTS

7. Events after the Reporting Period

The financial statements were authorised for issue by the Section 151 Officer on the 14 June 2021. Events taking place after this date are not reflected in the financial statements or notes. Where events taking place before this date provided information about conditions existing at 31 March 2021, the figures in the financial statements and notes have been adjusted in all material respects to reflect the impact of this information.

One community school has converted to academy status since 31 March 2021. The estimated value of the school that will be removed from the Balance Sheet during 2021/22 is £3.1M.

8. Expenditure and Funding Analysis

a) Notes to the Expenditure and Funding Analysis

This note provides a reconciliation of the main adjustments to Net Expenditure Chargeable to the General Fund and HRA Balances to arrive at the amounts in the Comprehensive Income and Expenditure Statement. The relevant transfers between reserves are explained in the Movement in Reserves Statement.

Adjustments for Capital Purposes

The Cost of Services has been adjusted to add in depreciation, impairment and revaluation gains/losses and capital expenditure on third party assets which is not recognised on the Council's balance sheet. Capital expenditure funded from revenue and PFI principal repayments have been removed. Adjustments for capital purposes have also been made to:

- **Other operating expenditure** – adjusts for capital disposals with transfer of income on disposal of assets and the amounts written off for those assets.
- **Financing and investment income and expenditure** – the statutory charge for capital financing i.e. Minimum Revenue Provision is deducted from other income and expenditure as it is not chargeable under generally accepted accounting practices.
- **Taxation and non-specific grant income and expenditure** – add in capital grants receivable in the year without conditions or for which conditions were satisfied in the year.

Net Change for the Pensions Adjustments

Net change for the removal of pension contributions and the addition of IAS 19 Employee Benefits pension related expenditure and income:

- **For services** - this represents the removal of the employer pension contributions made by the authority as allowed by statute and the replacement with current service costs and past service costs.
- **For Financing and investment income and expenditure** - the net interest on the defined benefit liability is charged to the CIES.

Other Differences

Other differences between amounts debited/credited to the Comprehensive Income and Expenditure Statement and amounts payable/receivable to be recognised under statute:

- **For services** – add in expenditure for staff holiday entitlement, add in income and expenditure not included in the outturn report, remove transfers to/from earmarked reserves and transfer costs between services and from Other Income and Expenditure.
- **For Financing and investment income and expenditure** – transfer PFI finance costs and movement of impairment allowances/debt write-offs from service lines.
- **For Taxation and non-specific grant income and expenditure** – represents the difference between the amount received under statutory regulations for council tax and business rates that was projected to be received at the start of the year and the income recognised under generally accepted accounting practices. This is a timing difference as any difference will be brought forward in future Surpluses or Deficits on the Collection Fund.

NOTES TO THE CORE FINANCIAL STATEMENTS

Adjustments between Funding and Accounting Basis 2020/21

Adjustments from General Fund and HRA to arrive at the Comprehensive Income and Expenditure Statement amounts	Adjustments for Capital Purposes £000	Net change for the Pension Adjustments £000	Other Differences £000	Total Adjustments £000
Children & Learning	7,628	4,052	(204)	11,476
Culture & Homes	3,793	761	(1,830)	2,724
Customer & Organisation	1,099	3,562	(1,610)	3,051
Finance & Income Generation	916	1,717	2,828	5,461
Green City & Place	9,189	3,579	(5,526)	7,242
Health & Adults	157	3,152	(8,059)	(4,750)
Housing Revenue Account (HRA)	0	3,912	(518)	3,394
Stronger Communities	23	995	(306)	712
Housing Benefit	0	0	205	205
Other Income & Expenditure	0	0	(2,113)	(2,113)
Other items of expenditure and income:				
Correction for Housing Improvement Loans	0	0	0	0
Revaluation & Impairment of General Fund Assets	3,493	0	0	3,493
Housing Revenue Account (HRA) - Revaluation and impairment loss/(gain) on dwellings	(42,021)	0	0	(42,021)
Cost of Services	(15,723)	21,730	(17,133)	(11,126)
Other Income and Expenditure from the Expenditure and Funding Analysis	(20,608)	11,063	52,106	42,561
Difference between General Fund and HRA surplus or deficit and Comprehensive Income and Expenditure Statement Surplus of Deficit on the Provision of Services	(36,331)	32,793	34,973	31,435

NOTES TO THE CORE FINANCIAL STATEMENTS

Adjustments between Funding and Accounting Basis 2019/20 Restated

Adjustments from General Fund and HRA to arrive at the Comprehensive Income and Expenditure Statement amounts	Adjustments for Capital Purposes £000	Net change for the Pension Adjustments £000	Other Differences £000	Total Adjustments £000
Children & Learning	11,414	4,817	5,196	21,427
Culture & Homes	3,857	676	(1,374)	3,159
Customer & Organisation	1,153	3,637	1,753	6,543
Finance & Income Generation	519	(4,628)	5,948	1,839
Green City & Place	7,793	3,474	(6,159)	5,108
Health & Adults	165	3,453	(295)	3,323
Housing Revenue Account (HRA)	0	488	(518)	(30)
Stronger Communities	221	972	73	1,266
Housing Benefit	0	0	(580)	(580)
Other Income & Expenditure	0	0	1,482	1,482
Other items of expenditure and income:				
Correction for Housing Improvement Loans	(3,721)	0	0	(3,721)
Revaluation & Impairment of General Fund Assets	13,979	0	0	13,979
Housing Revenue Account (HRA) - Revaluation and impairment loss/(gain) on dwellings	18,383	0	0	18,383
Cost of Services	53,763	12,889	5,526	72,178
Other Income and Expenditure from the Expenditure and Funding Analysis	(51,297)	10,647	(581)	(41,231)
Difference between General Fund and HRA surplus or deficit and Comprehensive Income and Expenditure Statement Surplus of Deficit on the Provision of Services	2,466	23,536	4,945	30,947

NOTES TO THE CORE FINANCIAL STATEMENTS

b) Analysis of income and expenditure by nature

2019/20 £000	Analysis of income and expenditure by nature	2020/21 £000
	Income	
(125,364)	Revenue from contracts with service recipients	(109,937)
(344,627)	Government grants and contributions	(418,134)
(9,917)	Other service income	(9,812)
(7,903)	Income in relation to investment properties	(6,170)
(785)	Interest and investment income	(1,854)
(179,744)	Income from council tax and non-domestic rates	(130,451)
(12,132)	Proceeds from the disposal of non-current assets	(4,478)
(680,472)		(680,836)
	Expenditure	
254,556	Employee benefits expenses	250,750
322,935	Other service expenses	355,265
92,655	Depreciation, amortisation, impairments and revaluations	17,015
18,159	Interest payable and similar charges	16,657
10,648	Net interest expense on the pension defined liability	11,063
4,152	Payments to Housing Capital Receipts Pool	1,160
9,217	Costs from the disposal of non-current assets	13,575
712,322	Total Expenditure	665,485
31,850	(Surplus) or Deficit on the Provision of Services	(15,351)

c) Analysis of service income

Analysis of Service Income 2020/21	Government Grants and Contributions £000	Revenue from Contracts with Service £000	Other Service Income £000	Total Service Income £000
Children & Learning	(170,151)	(1,350)	(101)	(171,602)
Culture & Homes	(3,399)	(720)	(327)	(4,446)
Customer & Organisation	(1,647)	(1,953)	(2)	(3,602)
Finance & Income Generation	(8,492)	(2,286)	(796)	(11,574)
Green City & Place	(2,945)	(11,570)	(4,525)	(19,040)
Health & Adults	(48,553)	(11,858)	0	(60,411)
Housing Revenue Account (HRA)	0	(75,704)	(871)	(76,575)
Stronger Communities	(2,693)	(4,491)	(570)	(7,754)
Housing Benefit	(71,050)	0	0	(71,050)
Other Income & Expenditure	0	(5)	(2,620)	(2,625)
	(308,930)	(109,937)	(9,812)	(428,679)

NOTES TO THE CORE FINANCIAL STATEMENTS

Analysis of Service Income 2019/20 Restated	Government Grants and Contributions	Revenue from Contracts with Service Recipients	Other Service Income	Total Service Income
	£000	£000	£000	£000
Children & Learning	(152,541)	(4,808)	(226)	(157,575)
Culture & Homes	(3,372)	(2,029)	(294)	(5,695)
Customer & Organisation	(743)	(2,855)	(1)	(3,599)
Finance & Income Generation	(3,470)	(2,911)	(1,143)	(7,524)
Green City & Place	(2,455)	(17,264)	(6,898)	(26,617)
Health & Adults	(38,442)	(12,238)	0	(50,680)
Housing Revenue Account (HRA)	0	(78,139)	(883)	(79,022)
Stronger Communities	(2,639)	(4,872)	(472)	(7,983)
Housing Benefit	(72,663)	0	0	(72,663)
Other Income & Expenditure	0	(248)	0	(248)
	(276,325)	(125,364)	(9,917)	(411,606)

9. Transfers (to) / from Earmarked Reserves

This note sets out the amounts set aside from the General Fund and HRA balances in earmarked reserves to provide financing for future expenditure plans and the amounts posted back from earmarked reserves to meet General Fund and HRA expenditure in year.

	Balance 31 March 2020	Net Transfers In 2020/21	Net Transfers Out 2020/21	Balance 31 March 2021
	£000	£000	£000	£000
<u>Earmarked Reserves</u>				
<u>General Fund</u>				
Medium Term Financial Risk Reserve	(50,318)	(9,470)		(59,788)
Organisational Design Reserve	(6,640)		6,640	0
Revenue Grant Reserve - General	(9,521)	(25,522)		(35,043)
Social Care Demand Risk Reserve	0	(11,612)		(11,612)
Portfolio Carry Forwards Reserve	(2,603)	(3,460)		(6,063)
PFI Sinking Fund	(4,523)	(2)		(4,525)
Insurance Reserve	(2,808)		150	(2,658)
On Street Parking	(3,095)		273	(2,822)
Digital Strategy Reserve	(6,156)		3,923	(2,233)
Dedicated Schools Grant Reserve	7,420	(7,420)		0
General Fund Contributions to Capital	(4,256)		2,635	(1,621)
Other Reserves	(3,698)	(315)		(4,013)
	(86,198)	(57,801)	13,621	(130,378)
<u>Schools</u>				
School Balances	(1,565)	(2,606)		(4,171)
	(87,763)	(60,407)	13,621	(134,549)

NOTES TO THE CORE FINANCIAL STATEMENTS

The purpose of the main reserves are noted below:

Medium Term Financial Risk Reserve

As part of the Council's Medium Term Financial Forecast (MTFF) monies have been set aside on a non-recurrent basis to mitigate the risks of changes to the funding system and volatility of funding streams, demand pressures and the potential for planned savings to be delayed. A number of separate reserves have been consolidated into this reserve during 2020/21.

Organisational Design Reserve

The reserve held monies to meet the financial cost of changes in staffing structures, e.g. redundancies, as a result of organisation design changes for the period of the MTFF. This reserve has been consolidated into the Medium Term Financial Risk Reserve.

Revenue Grants Reserve – General

This reserve holds grant funding that has been ring-fenced to be used in future years. £32.1M of the balance at 31 March 2021 is for COVID-19 grants received in 2020/21 to be used in 2021/22. Of this, £24.7M is for additional S31 business rates reliefs grant over and above the budgeted grant income for 2020/21 and £1.1M is for compensation grant for council tax losses. The accounting arrangements for business rates and council tax mean that the deficits on the Collection Fund in 2020/21 are charged to the General Fund in future years. Due to this timing difference the compensation funding for additional business rates reliefs and council tax shortfalls has been set aside in the reserve to be used to offset the deficits charged to the General Fund in 2021/22 and it does not represent additional resources available to the Council to spend on service provision.

Social Care Demand Risk Reserve

The reserve holds monies to mitigate the risks of demand pressures within both Children's and Adults Social Care, such as rising client numbers.

Portfolio Carry Forward Reserve

This reserve holds budgets carried forward for specific purposes as agreed by Council.

PFI Sinking Fund

The surplus PFI grant is held in a reserve to meet future contract liabilities and additional costs that might arise from reviewing or restructuring the councils PFI arrangements.

Insurance Reserve

This reserve holds monies to meet the potential cost of liability claims against the Council, including motor and third party injury, however, there is no commitment on the Council to pay the claim.

On Street Parking Reserve

It is a legal requirement to set aside surplus income from on street parking to be used in future years in accordance with the Road Traffic Regulation Act 1984.

Digital Strategy Reserve

Monies have been set aside to be used in the delivery of the Council's digital strategy.

Dedicated Schools Grant Reserve

This reserve held the deficit on the Schools Budget to be funded from future Dedicated Schools Grant (DSG) income. In accordance with the Local Authorities (Capital Finance and Accounting)(England)(Amendment) Regulations 2020 the deficit as at 31 March 2021 has been transferred to a new unusable reserve the Dedicated Schools Grant Adjustment Account. See Note 22 (f) for further details.

General Fund Contributions to Capital

This reserve holds monies to finance the capital programme.

NOTES TO THE CORE FINANCIAL STATEMENTS

10. Adjustments between Accounting Basis and Funding Basis Under Regulations

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

2020/21	General Fund Balance	Earmarked Reserves	Housing Revenue Account	Earmarked HRA Reserves	Capital Receipts Reserves	Major Repairs Reserve	Capital Grants & Cont's Unapplied	Total Usable Reserves	Unusable Reserves	Total Authority Reserves
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
Adjustments between accounting basis & funding basis under regulations										
Amortisation of Intangible Fixed Assets	(1,774)							(1,774)	1,774	0
Depreciation and revaluation of Non Current Assets	(29,399)		20,468					(8,931)	8,931	0
Movement on Market Value of Investment Properties	(6,366)		57					(6,309)	6,309	0
Capital Grants and Contributions Applied	32,404		514					32,918	(32,918)	0
Capital Grants and Contributions Unapplied	(1,881)						1,881	0	0	0
Revenue Expenditure Funded from Capital Under Statute	(6,081)							(6,081)	6,081	0
Short-term Accumulating Compensated Absences Account	(1,956)							(1,956)	1,956	0
Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in year	(113)							(113)	113	0
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement	(45,514)		(9,991)					(55,505)	55,505	0
Employer's contributions payable to the Hampshire County Council Pension Fund and retirement benefits payable direct to pensioners	18,624		4,088					22,712	(22,712)	0
Statutory Provision for the Financing of Capital Investment	9,907							9,907	(9,907)	0
Transfer from Useable Capital Receipts to meet payments to the Housing Capital Receipts Pool	(1,160)				1,160			0	0	0
Capital expenditure charged in-year to the GF and HRA Balances	660		7,187					7,847	(7,847)	0
Amount by which council tax and business rates income credited to the Comprehensive Income and Expenditure Statement is different from income calculated	(24,631)							(24,631)	24,631	0
Transfers to/(from Major Repairs Reserves			21,553			(21,553)		0	0	0
Financing of HRA Assets (Major Repairs Reserve)						19,056		19,056	(19,056)	0
Capital Receipts in Year	119		4,359		(4,478)			0	0	0
Non-current Asset Disposals	(10,914)		(2,661)					(13,575)	13,575	0
Capital Receipts Financing of New Capital Expenditure					16,829			16,829	(16,829)	0
Adjustment for repayment of loans					(78)			(78)	78	0
Transfer of deficit on the Dedicated Schools Grant to the Dedicated Schools Grant Adjustment Account	(8,934)							(8,934)	8,934	0
	(77,009)	0	45,574	0	13,433	(2,497)	1,881	(18,618)	18,618	0

NOTES TO THE CORE FINANCIAL STATEMENTS

2019/20	General Fund Balance	Earmarked Reserves	Housing Revenue Account	Earmarked HRA Reserves	Capital Receipts Reserves	Major Repairs Reserve	Capital Grants & Cont's Unapplied	Total Usable Reserves	Unusable Reserves	Total Authority Reserves
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
Adjustments between accounting basis & funding basis under regulations										
Amortisation of Intangible Fixed Assets	(1,458)							(1,458)	1,458	0
Depreciation and revaluation of Non Current Assets	(38,030)		(37,980)					(76,010)	76,010	0
Movement on Market Value of Investment Properties	(15,643)		456					(15,187)	15,187	0
Capital Grants and Contributions Applied	35,650		542					36,192	(36,192)	0
Capital Grants and Contributions Unapplied	21,403						(21,403)	0	0	0
Revenue Expenditure Funded from Capital Under Statute	(4,023)							(4,023)	4,023	0
Short-term Accumulating Compensated Absences Account	(219)							(219)	219	0
Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in year	(906)							(906)	906	0
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement	(53,610)		(2,106)					(55,716)	55,716	0
Employer's contributions payable to the Hampshire County Council Pension Fund and retirement benefits payable direct to pensioners	30,964		1,216					32,180	(32,180)	0
Statutory Provision for the Financing of Capital Investment	9,303							9,303	(9,303)	0
Transfer from Useable Capital Receipts to meet payments to the Housing Capital Receipts Pool	(4,152)				4,152			0	0	0
Capital expenditure charged in-year to the GF and HRA Balances	2,879		8,955					11,834	(11,834)	0
Amount by which council tax and business rates income credited to the Comprehensive Income and Expenditure Statement is different from income calculated	(6,675)							(6,675)	6,675	0
Transfers to/(from) Major Repairs Reserve			19,597			(19,597)		0	0	0
Financing of HRA Assets (Major Repairs Reserve)						19,597		19,597	(19,597)	0
Capital Receipts in Year	1,909		10,223		(12,132)			0	0	0
Non-current Asset Disposals	(2,852)		(6,365)					(9,217)	9,217	0
Capital Receipts Financing of New Capital Expenditure					8,205			8,205	(8,205)	0
Capitalised shares written off	(25)							(25)	25	0
	(25,485)	0	(5,462)	0	225	0	(21,403)	(52,125)	52,125	0

NOTES TO THE CORE FINANCIAL STATEMENTS

11. Interest Payable and Receivable

Interest Payable and Similar Charges		
<u>2019/20</u>		<u>2020/21</u>
£000		£000
7,498	Interest on External Loans	7,204
7,095	PFI Schemes	6,895
372	Payments to HCC in respect of Transferred Debt	291
225	Other	243
2,969	Movement of impairment allowance & debt write-offs	2,024
<u>18,159</u>		<u>16,657</u>

Interest and Investment Income		
<u>2019/20</u>		<u>2020/21</u>
£000		£000
(1,745)	Investments	(2,042)
(22)	HRA Cash Balances	0
982	(Gain) /Loss on Financial Instruments	188
<u>(785)</u>		<u>(1,854)</u>

12. Property, Plant and Equipment (PPE)

PPE are shown at a current valuation of £1,528M (2019/20 £1,462M), an increase of £66M (2019/20 £39M increase). The basis of valuation is explained in more detail in Note 1r) (Accounting Policies). The values are shown as at 31 March 2021.

a) Depreciation

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

- Council Dwellings – based on replacement costs and useful lives of the main components. Useful lives range from 15 – 60 years.
- Other Land and Buildings – 30 to 70 years.
- Vehicles, Plant, Furniture & Equipment – 5 to 15 years.
- Infrastructure – 25 to 40 years.

b) Revaluations

The Council carries out a rolling programme that ensures that all PPE required to be measured at current value is revalued at least every five years and are reviewed yearly to ensure there are no material movements since the last valuation. All valuations were carried out by the Council's Valuations and Estates Team. Valuations of land and buildings were carried out in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors (RICS).

NOTES TO THE CORE FINANCIAL STATEMENTS

The movement in PPE for both the current and previous year are shown below and comes about due to changes to asset valuations, disposals, new acquisitions and enhancements.

c) Disposals

For 2020/21 there was an overall loss of £9.1M loss (2019/20 - 2.9M gain) on disposal of non-current assets shown within the Comprehensive Income and Expenditure Statement, mainly as a result of three schools transferring to academy status, offset by a £1.6M gain (2019/20 - £3.9M gain) relating to the Housing Revenue Account.

d) Current Value

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

NOTES TO THE CORE FINANCIAL STATEMENTS

Movement in Property, Plant & Equipment (PPE) 2020/21

	Council Dwellings	Other Land & Buildings	Vehicles, Plant and Equipment	Infrastructure	Community Assets	Surplus Assets	PP&E Under Construction	Total	PFI Assets Included in PP&E
	£000	£000	£000	£000	£000	£000	£000	£000	£000
Cost or Valuation									
At 1 April 2020	655,993	542,571	50,945	278,376	3,897	1,442	40,921	1,574,145	83,401
Adjustment to Previous Year Charges	0	0	0	0	0	0	0	0	(1,906)
	655,993	542,571	50,945	278,376	3,897	1,442	40,921	1,574,145	81,495
Additions	18,528	2,637	8,013	21,679	0	0	22,528	73,385	2
Revaluation Increases/(decreases) recognised in the Revaluation Reserve	0	(7,413)	0	0	0	0	0	(7,413)	
Revaluation Increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	20,932	(7,824)	0	0	0	0	0	13,108	(2,058)
Derecognition-Disposals	(2,661)	(11,205)	(14)	0	0	0	0	(13,880)	
Reclassified outside PPE	0	0	0	0	0	0	0	0	
Other Reclassifications	10,173	0	0	0	0	0	(10,173)	0	
At 31 March 2021	702,965	518,766	58,944	300,055	3,897	1,442	53,276	1,639,345	79,439
Accumulated Depreciation and Impairment									
At 1 April 2020	(21,089)	(22,930)	(17,367)	(50,511)	(314)	(5)	0	(112,216)	(9,282)
Adjustment to Previous Year Charges	0	(1)		(2)				(3)	1,940
	(21,089)	(22,931)	(17,367)	(50,513)	(314)	(5)	0	(112,219)	(7,342)
Depreciation in Year	(21,311)	(16,297)	(3,922)	(5,895)	(17)	(13)	0	(47,455)	(3,560)
Impairment in Year	0	0	0	0	0	0	0	0	
Written out to the Revaluation Reserve	0	22,520	0	0	0	0	0	22,520	
Written out to the (Surplus)/ Deficit on the Provision of Services	21,089	4,330	0	0	0	0	0	25,419	1,846
Derecognition-Disposals	0	292	14	0	0	0	0	306	
Other Reclassifications	0	0	0	0	0	0	0	0	
At 31 March 2021	(21,311)	(12,086)	(21,275)	(56,408)	(331)	(18)	0	(111,429)	(9,056)
Net Book Value									
At 31 March 2021	681,654	506,680	37,669	243,647	3,566	1,424	53,276	1,527,916	70,383
At 31 March 2020	634,904	519,641	33,578	227,865	3,583	1,437	40,921	1,461,929	74,119

	Council Dwellings	Other Land and Buildings	Vehicles, Plant and Equipment	Infrastructure	Community Assets	Surplus Assets	PP&E Under Construction	Total
	£000	£000	£000	£000	£000	£000	£000	£000
Carried at Historic Cost			37,669	243,647	3,566		53,276	338,158
Valued at Fair Value in:								
2020/21	681,654	438,579				324		1,120,557
2019/20		16,656				869		17,525
2018/19		36,537				231		36,768
2017/18		12,220						12,220
2016/17		2,091						2,091
Deminimus		597						597
Net Book Value as at 31 March 2021	681,654	506,680	37,669	243,647	3,566	1,424	53,276	1,527,916

NOTES TO THE CORE FINANCIAL STATEMENTS

Movement in Property, Plant & Equipment (PPE) 2019/20									
	Council Dwellings	Other Land & Buildings	Vehicles, Plant and Equipment	Infrastructure	Community Assets	Surplus Assets	PP&E Under Construction	Total	PFI Assets Included in PP&E
	£000	£000	£000	£000	£000	£000	£000	£000	£000
Cost or Valuation									
At 1 April 2019	673,002	525,995	47,033	251,563	3,897	3,234	29,026	1,533,750	76,896
Adjustment to Previous Year Charges	0	0	0	0	0	0	0	0	7,638
	673,002	525,995	47,033	251,563	3,897	3,234	29,026	1,533,750	84,534
Additions	25,389	9,942	3,912	26,813	0	0	21,496	87,552	15
Donations	0	0	0	0	0	0	0	0	
Revaluation Increases/(decreases) recognised in the Revaluation Reserve	0	16,099	0	0	0	112	0	16,211	
Revaluation Increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	(36,034)	(19,540)	0	0	0	(74)	0	(55,648)	(1,148)
Derecognition-Disposals	(6,364)	(1,606)	0	0	0	0	0	(7,970)	
Derecognitions- Fully Depreciated	0	0	0	0	0	0	0	0	
Reclassified outside PPE	0	0	0	0	0	0	0	0	
Other Reclassifications	0	11,681	0	0	0	(1,830)	(9,601)	250	
At 31 March 2020	655,993	542,571	50,945	278,376	3,897	1,442	40,921	1,574,145	83,401
Accumulated Depreciation and Impairment									
At 1 April 2019	(19,539)	(31,690)	(14,027)	(45,304)	(296)	0	0	(110,856)	(11,238)
Adjustment to Previous Year Charges	1	(1)	0	0	0	0	0	0	122
	(19,538)	(31,691)	(14,027)	(45,304)	(296)	0	0	(110,856)	(11,116)
Depreciation in Year	(19,356)	(15,724)	(3,340)	(5,207)	(18)	(2)	0	(43,647)	(3,653)
Impairment in Year	(1,734)	0	0	0	0	0	0	(1,734)	
Written out to the Revaluation Reserve	0	18,848	0	0	0	36	0	18,884	
Written out to the (Surplus)/ Deficit on the Provision of Services	19,539	5,479	0	0	0	0	0	25,018	5,487
Derecognition-Disposals	0	119	0	0	0	0	0	119	
Derecognitions-Other								0	
Other Reclassifications		39				(39)	0	0	
At 31 March 2020	(21,089)	(22,930)	(17,367)	(50,511)	(314)	(5)	0	(112,216)	(9,282)
Net Book Value									
At 31 March 2020	634,904	519,641	33,578	227,865	3,583	1,437	40,921	1,461,929	74,119
At 31 March 2019	653,463	494,305	33,006	206,259	3,601	3,234	29,026	1,422,894	65,658

Capital Commitments

At 31 March 2021, the Council has entered into a number of contracts for the construction or enhancement of Property, Plant and Equipment in 2021/22 and future years budgeted to cost £64.4M. Similar commitments at 31 March 2020 were £59.5M. The major commitments are:

NOTES TO THE CORE FINANCIAL STATEMENTS

	<u>2019/20</u>	<u>2020/21</u>
	<u>£000</u>	<u>£000</u>
HRA - Estate Regeneration & New Build	32,701	198
HRA - Supporting Communities	275	3,705
HRA - Improving Quality of Homes	1,506	503
HRA - Supporting Independent Living	1,599	2,874
HRA - Making Homes Safe	14,473	20,717
HRA - Making Homes Energy Efficient	1,904	2,523
Sholing Technical College Renovation	1,584	760
Regent Park Expansion	1,511	0
Southampton All Through School	1,378	29,551
Desktop Refresh	599	730
Warm Homes	465	116
Electric Vehicles	432	1,566
Other Various Minor Commitments	1,093	1,154
Total	<u>59,520</u>	<u>64,397</u>

13. Heritage Assets

As set out in our Accounting Policies, Note 11) (Accounting Policies), the Council's Heritage Assets are predominantly held in the Council's Museums.

NOTES TO THE CORE FINANCIAL STATEMENTS

Reconciliation of the Carrying Value of Heritage Assets Held by the Council

	Works of Art £000	Historic Buildings and Ancient Monuments £000	Total Assets £000
Cost or Valuation			
01 April 2019	190,000	278	190,278
Additions			0
Revaluations			0
Adj for depreciation previously written out			0
Impairment Losses/(reversals) recognised in the Surplus or Deficit on the Provision of Services			0
31 March 2020	190,000	278	190,278
Accumulated Depreciation and Impairment			
01 April 2019	0	(29)	(29)
31 March 2020	0	(29)	(29)
Net Book Value			
31 March 2020	190,000	249	190,249
31 March 2019	190,000	249	190,249
Cost or Valuation			
01 April 2020	190,000	278	190,278
Additions		0	0
Adj for depreciation previously written out			0
31 March 2021	190,000	278	190,278
Accumulated Depreciation and Impairment			
01 April 2020	0	(29)	(29)
Depreciation		0	0
31 March 2021	0	(29)	(29)
Net Book Value			
31 March 2021	190,000	249	190,249
31 March 2020	190,000	249	190,249

NOTES TO THE CORE FINANCIAL STATEMENTS

14. 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:

<u>2019/20</u> <u>Restated</u> £000		<u>2020/21</u> £000
(7,903)	Rental Income	(6,170)
985	Operating Expenditure	470
(6,918)	Net (Income) / Expenditure	(5,700)
15,187	Net (Gains)/ Losses from fair value adjustments	6,309
<u>8,269</u>	Total Net (Income) / Expenditure	<u>609</u>

There are no restrictions on the Council's ability to realise the value inherent in its investment property or on the Council's right to the remittance of income and the proceeds of disposal. The Council has no contractual obligations to purchase, construct or develop investment property or undertake repairs, maintenance or enhancement.

The following table summarises the movement in the fair value of investment properties over the year:

	<u>2019/20</u> £000	<u>2020/21</u> £000
Balance at start of year	134,948	118,145
Additions:		
Purchases	0	1,263
Subsequent Expenditure	0	0
Disposals	(1,366)	(1)
Net gains / (losses) from fair value adjustments	(15,187)	(6,309)
Transfers		
(to) / from Property, Plant and Equipment	(250)	0
Balance at End of Year	<u>118,145</u>	<u>113,098</u>

The fair value hierarchy is based on the relative reliability and relevance of the information used in the valuation. Investment properties are valued on an income approach that is based on capitalisation of current rental income and taking into account anticipated uplifts at the next rent review, lease expiry or break option. This uplift and the discount rate are derived from rates implied by market transactions of other property. The transactions from which the uplifts and discount rates are derived are not sufficiently similar for direct comparison to be made and adjustments have to be made to the observable data of

NOTES TO THE CORE FINANCIAL STATEMENTS

comparable transactions. We therefore take the view that the inputs are unobservable i.e. level 3 for the purposes of fair value hierarchy classification.

15. Intangible Assets

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

Expenditure on intangible assets to date generally relates to the purchase of software. The capitalised expenditure will be depreciated over the useful life of each asset and is charged to service line(s) in the Comprehensive Income and Expenditure Statement (from the year following acquisition).

Purchased Software		
	<u>31 March</u>	<u>31 March</u>
	<u>2020</u>	<u>2021</u>
	£000	£000
Gross carrying amount	10,463	11,672
Derecognition of Assets fully amortised	(583)	0
	<u>9,880</u>	<u>11,672</u>
Accumulated amortisation	(3,169)	(4,627)
Net Carrying Amount at Start of the Year	<u>6,711</u>	<u>7,045</u>
Purchases	1,792	3,449
Amortisation for the period	(1,458)	(1,774)
Net Carrying Amount at End of the Year	<u><u>7,045</u></u>	<u><u>8,720</u></u>

16. Assets Held for Sale (AHFS)

As at 31 March 2021 there are no surplus assets that have been marketed for sale and are expected to be disposed of within the next 12 months and there were none in the preceding year.

NOTES TO THE CORE FINANCIAL STATEMENTS

17. Financial Instruments

a) Financial Instruments Classifications

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

The term 'financial instrument' covers both financial assets and financial liabilities. These range from straight forward trade receivables and trade payables to more complex transactions such as financial guarantees, derivatives and embedded derivatives. The Council's borrowing, service concession arrangements (PFI and similar contracts), and investment transactions are classified as financial instruments.

Financial Liabilities

A financial liability is an obligation to transfer economic benefits controlled by the Council. It can be represented by a contractual obligation to deliver cash or financial assets, or an obligation to exchange financial assets and liabilities with another entity that are potentially unfavourable to the Council.

The majority of the Council's financial liabilities held during the year are measured at amortised cost and comprised:

- Long-term loans from the Public Works Loan Board (PWLB) and commercial lenders,
- Short-term loans from other local authorities,
- Overdraft with Lloyds bank,
- Private Finance Initiative contracts detailed in Note 32 (PFI and Similar Contracts), and
- Trade payables for goods and services received.

Transferred debt from Hampshire County Council is not considered to be a financial instrument, as it arises from local government reorganisation rather than a contractual agreement.

Financial Assets

A Financial Asset is a right to future economic benefits controlled by the Council. It is represented by cash equity instruments or a contractual right to receive cash or another financial asset or an obligation to exchange financial assets and liabilities with another entity that is potentially favourable to the Council. The financial assets held by the Council during the year are held under the following classifications:

- Amortised cost (where cash flows are solely payments of principal and interest and the Council's business model is to collect those cash flow) comprising:
 - cash in hand,
 - bank current and deposit accounts,
 - loans to other local authorities,
 - covered bonds issued by banks and building societies,
 - bonds issued by multilateral development banks and large companies,
 - loans made for service purposes,
 - trade receivables for goods and services provided.
- Fair value through profit and loss (all other financial assets) comprising:
 - money market funds managed by fund managers,
 - pooled property funds managed by CCLA fund managers,
 - equity investments

Financial assets held at amortised cost are shown net of a loss allowance reflecting the likelihood that the borrower or debtor will be unable to meet their contractual commitments to the Council.

b) Financial Instruments Balances

The financial assets and liabilities disclosed in the Balance Sheet are analysed across the following tables:

NOTES TO THE CORE FINANCIAL STATEMENTS

Financial Liabilities	Long Term		Short Term		Total	
	31 March	31 March	31 March	31 March	31 March	31 March
	2020	2021	2020	2021	2020	2021
	£000	£000	£000	£000	£000	£000
<i>Loans at amortised cost:</i>						
- Principal sum borrowed	(222,597)	(213,847)	(54,278)	(27,750)	(276,875)	(241,597)
- Accrued interest			(936)	(667)	(936)	(667)
Total Borrowing	(222,597)	(213,847)	(55,214)	(28,417)	(277,811)	(242,264)
<i>Loans at amortised cost:</i>						
- Bank Overdraft			(4,352)	(2,475)	(4,352)	(2,475)
Total Cash Overdrawn	0	0	(4,352)	(2,475)	(4,352)	(2,475)
<i>Liabilities at amortised cost:</i>						
- Finance leases						0
- PFI arrangements	(50,965)	(47,519)			(50,965)	(47,519)
- Other long-term creditors	(37)	(37)			(37)	(37)
Total Long-term Creditors	(51,002)	(47,556)	0	0	(51,002)	(47,556)
<i>Liabilities at amortised cost:</i>						
- PFI arrangements			(3,039)	(3,446)	(3,039)	(3,446)
- Trade payables			(26,717)	(30,048)	(26,717)	(30,048)
Included in Creditors	0	0	(29,756)	(33,494)	(29,756)	(33,494)
Total Financial Liabilities	(273,599)	(261,403)	(89,322)	(64,386)	(362,921)	(325,789)

Financial Assets	Long Term		Short Term		Total	
	31 March	31 March	31 March	31 March	31 March	31 March
	2020	2021	2020	2021	2020	2021
	£000	£000	£000	£000	£000	£000
<i>At amortised cost</i>						
- Principal	3,033	1,029	0	2,000	3,033	3,029
- Accrued interest			141	142	141	142
<i>At fair value through profit & loss</i>						
- Principal	27,000	27,000			27,000	27,000
- Accrued interest	0	0	295	292	295	292
- Fair value adjustments	(531)	(719)			(531)	(719)
Total Investments	29,502	27,310	436	2,434	29,938	29,744
<i>Loans and Receivables</i>						
- Principal			2,367	772	2,367	772
- Accrued interest						0
<i>At fair value through profit & loss</i>						
- Principal			28,850	29,358	28,850	29,358
- Accrued interest						0
Total Cash and Cash Equivalents	0	0	31,217	30,130	31,217	30,130
<i>At amortised costs</i>						
- Trade receivables (2019/20 restated)			24,685	22,993	24,685	22,993
- Loans made for service purposes	3,733	3,625		1	3,733	3,626
Included in Debtors	3,733	3,625	24,685	22,994	28,418	26,619
Total Financial Assets	33,235	30,935	56,338	55,558	89,573	86,493

The portion of long-term liabilities and investments due to be settled within 12 months of the Balance Sheet date are presented in the Balance Sheet under 'current liabilities' or 'current investments'. This includes accrued interest on long term liabilities and investments that is payable/receivable in 2021/22.

c) Offsetting Financial Assets and Liabilities

Financial assets and liabilities are set off against each other where the Council has a legally enforceable right to set off and it intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously. The Council had no financial assets or liabilities subject to an enforceable master netting arrangement or similar agreement.

NOTES TO THE CORE FINANCIAL STATEMENTS

d) Financial Instruments – Gains and Losses

The gains and losses recognised in the Comprehensive Income and Expenditure Statement in relation to financial instruments consist of the following items:

	2019/20	2020/21			
		Financial Liabilities	Financial Assets		Total £000
		Amortised cost £000	Amortised cost £000	Fair Value through Profit & Loss £000	
Interest expense	15,266	14,708			14,708
Gains/losses on derecognition	(76)	(75)			(75)
Impairment Losses	2,969		2,024		2,024
Interest Payable and Similar Charges	18,159	14,633	2,024	0	16,657
Interest income	(1,767)		(873)	(1,169)	(2,042)
Gains/losses on derecognition	982			188	188
Interest and Investment Income	(785)	0	(873)	(981)	(1,854)
Net Gain / (Loss) for the Year	17,374	14,633	1,151	(981)	14,803

e) Financial Instruments – Fair Values

Financial instruments, except those classified at amortised cost, are carried in the Balance Sheet at fair value. For most assets, including shares in money market funds and other pooled funds, the fair value is taken from the market price.

The fair values of financial instruments classified at amortised cost have been estimated by calculating the net present value of the remaining contractual cash flows at 31 March 2021, using the following methods and assumptions:

- Loans borrowed by the Council have been valued by discounting the contractual cash flows over the whole life of the instrument at the appropriate market rate for local authority loans.
- Discount rates for “Lender’s Option Borrower’s Option” (LOBO) loans have been reduced to reflect the value of the embedded options. The size of the reduction has been calculated using proprietary software.
- The fair values of other long-term loans and investments have been discounted at the market rates for similar instruments with similar remaining terms to maturity on 31 March 2021.
- The fair values of PFI scheme liabilities have been calculated by discounting the contractual cash flows (excluding service charge elements) at the appropriate AA-rated corporate bond yield.
- No early repayment or impairment is recognised for any financial instrument.
- The fair value of short-term instruments, including trade payables and receivables, is assumed to approximate to the carrying amount given the low and stable interest rate environment.

Fair values are shown in the table below, split by their level in the fair value hierarchy:

- **Level 1** – fair value is only derived from quoted prices in active markets for identical assets or liabilities, e.g. bond prices
- **Level 2** – fair value is calculated from inputs other than quoted prices that are observable for the asset or liability, e.g. interest rates or yields for similar instruments
- **Level 3** – fair value is determined using unobservable inputs, e.g. non-market data such as cash flow forecasts or estimated creditworthiness

The fair value of financial liabilities held at amortised cost is higher than their balance sheet carrying amount.

NOTES TO THE CORE FINANCIAL STATEMENTS

This is because the authority's portfolio of loans includes a number of loans where the interest rate payable is higher than the current rates available for similar loans as at the Balance Sheet date.

<u>Balance Sheet</u>	<u>Fair Value</u>		<u>Fair Value Level</u>	<u>Balance Sheet</u>	<u>Fair Value</u>
<u>31 March</u>	<u>31 March</u>			<u>31 March</u>	<u>31 March</u>
<u>2020</u>	<u>2020</u>			<u>2021</u>	<u>2021</u>
<u>£000</u>	<u>£000</u>			<u>£000</u>	<u>£000</u>
<u>Financial Liabilities held at amortised cost</u>					
(257,875)	(311,394)	Public Works Loans	2	(222,597)	(279,635)
(9,000)	(12,990)	LOBO Loans	2	(9,000)	(12,964)
(54,004)	(84,158)	PFI/Finance Lease Liabilities	2	(50,965)	(84,158)
(320,879)	(408,542)			(282,562)	(376,757)
<u>Liabilities for which Fair Value is not disclosed*</u>					
(37)		Other Long Term Creditors		(37)	
(10,936)		Short Term borrowing		(10,667)	
(4,352)		Bank Overdraft		(2,475)	
(26,717)		Trade Payables (Creditors)		(30,048)	
(42,042)				(43,227)	
(362,921)		Total Financial Liabilities		(325,789)	

* The fair value of short-term financial liabilities held at amortised cost, including trade payables, is assumed to approximate to the carrying amount.

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

Property funds totalling £26.3M have been moved from level 2 to level 1 of the hierarchy for 2020/21 reflecting the resumption of an active market in these instruments.

NOTES TO THE CORE FINANCIAL STATEMENTS

<u>Balance</u>	<u>Fair Value</u>		<u>Fair Value</u>	<u>Balance</u>	<u>Fair Value</u>
<u>31 March</u>	<u>31 March</u>			<u>31 March</u>	<u>31 March</u>
<u>2020</u>	<u>2020</u>			<u>2021</u>	<u>2021</u>
<u>£000</u>	<u>£000</u>			<u>£000</u>	<u>£000</u>
		Financial Assets held at Fair Value through P&L			
28,850	28,850	Money Market Funds	1	29,358	29,358
26,469	26,469	Property Funds	1	26,281	26,281
55,319	55,319			55,639	55,639
		Financial Assets held at Amortised Costs			
3,013	3,489	Corporate, Covered and Government Bonds	1	3,009	3,363
3,013	3,489			3,009	3,363
		Assets for which Fair Value is not disclosed**			
		<i>Recorded on balance sheet as:</i>			
3,733		Long Term Debtors		3,625	
436		Short Term investments		434	
20		Shares in unlisted companies		20	
2,367		Cash and Cash Equivalents		772	
24,685		Trade Receivables (Debtors) (2019/20 restated)		22,993	
		Other Debtors		1	
31,241				27,845	
		Total Financial Assets		86,493	
89,573					

**The Council holds shares in the UK Municipal Bond Agency which are carried at cost of £20k because their fair value cannot be measured reliably. This is because the company has no established trading history and there are no similar companies whose shares are traded, and which might provide comparable market data.

f) Financial Instruments – Risks

The Council complies with CIPFA's Code of Practice on Treasury Management and Prudential Code for Capital Finance in Local Authorities.

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

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

The main risks covered are:

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

NOTES TO THE CORE FINANCIAL STATEMENTS

g) Credit Risk

Treasury Investments

The Council manages credit risk by ensuring that investments are only placed with organisations of high credit quality as set out in the Treasury Management Strategy. These include commercial entities with a minimum long-term credit rating of A-, the UK Government and other local authorities and organisations without credit ratings upon which the Council will receive independent investment advice. Recognising that credit ratings are imperfect predictors of default, the Council has regard to other measures including credit default swap and equity prices when selecting commercial organisations for investment.

A maximum limit of £10M can be invested with a single counterparty (other than the UK Government) subject to this being no more than 10% of total investments. For unsecured investments in banks, building societies and companies, a smaller limit of £5M applies and in the case of money market funds being no more than 0.5% of any one individual fund. The Council also sets a total group investment limit for institutions that are part of the same banking group. A limit is also set for investments which can be invested for periods over one year.

The Council has no historical experience of counterparty default but its exposure to credit risk in relation to its investments of £59.9M (2019/20 £61.2M) cannot be assessed generally, as the risk of any institution failing to make interest payments or repay the principal sum will be specific to each individual institution. Recent experience has shown that it is rare for such entities to be unable to meet their commitments. A risk of irrecoverability applies to all of the Council's deposits, but there was no evidence at 31 March 2021 that this was likely to crystallise.

All investments have been made in line with the Council's Treasury Management Strategy Statement, approved by Governance Committee on 10 February 2020. The Treasury Strategy can be seen as Item 35 on the Agenda found via the following web link:

[Treasury Management Strategy and Prudential Limits 2020/21 to 2023/24](#)

The following table summarises the credit risk of the Council's investment portfolio at 31 March 2021 by credit rating. All investments were made in line with the Council's approved credit rating criteria at the time of placing the investment:

Credit Rating	Long Term		Short Term	
	2020 £000	2021 £000	2020 £000	2021 £000
AAA	3,013	1,009	295	2,142
AA+			0	0
AA			10	0
AA-			16,839	12,000
A+			12,000	18,028
A			2,368	102
A-				
Unrated local authorities	0	0		
Shares in unlisted companies	20	20		
Unrated pooled funds	26,469	26,281	141	292
Total Investments	29,502	27,310	31,653	32,564

* Credit risk is not applicable to shareholdings and pooled funds where the Council has no contractual right to receive any sum of money. For risks relating to pooled funds see "Price Risk" below.

The above analysis shows that all deposits outstanding as at 31 March 2021 met the Council's minimum credit rating criteria of A- or above.

NOTES TO THE CORE FINANCIAL STATEMENTS

Deposits are restricted by the council's treasury strategy to institutions with high credit ratings as specified above and will be recalled if these fall below the Council's minimum credit rating criteria. The 12 month expected credit losses have been calculated applying risk factors provided by the Council's treasury management advisors and the calculated loss allowance relating to treasury investments at 31 March 2021 was £0.002M (2020: £0.007M) but as this falls below the Council's de-minimis level no offset was made.

Trade Receivables

The Council's maximum exposure to credit risk is set out below. As per the Code requirements, this only includes debtors that have arisen as a result of trading activities. Balances and transactions arising from statutory functions, (e.g. council tax, business rates), are excluded as they have not arisen from contractual trading activities.

<u>Trade Debtors and Impairment Allowance</u>		
	<u>Outstanding</u> <u>31 March 2020</u> £000	<u>Outstanding</u> <u>31 March 2021</u> £000
Trade Debtors (2019/20 restated)	24,685	22,993
Trade Debtors Impairment Allowance	(6,830)	(7,484)

Trade debtors are not subject to internal credit rating and have been collectively assessed in the following groupings for the purposes of calculating expected credit losses:

- Adult Social Care clients (£1.455M)
- Housing tenants (£5.520M)
- Other service recipients (£0.509M)

Expected credit losses are calculated using provision matrices based on historical data for defaults adjusted for current and forecast economic conditions.

Debt write-off is considered when normal recovery procedures have been unable to secure payment. Prior to write-off, all possible action will have been taken to secure the debt, however the extent to which it is pursued is dependent on the amount of the debt and the financial circumstances of the debtor.

The following analysis summarises the Council's trade debtors by due date.

<u>2019/20</u> <u>Restated</u> £000		<u>2020/21</u> £000
	<u>Trade debtors, analysed by age</u>	
7,629	Less than two months	8,515
7,694	Two to six months	5,098
4,383	Six months to one year	4,605
4,979	More than one year	4,775
<u>24,685</u>		<u>22,993</u>

NOTES TO THE CORE FINANCIAL STATEMENTS

h) Liquidity Risk

The Council has ready access to borrowing at favourable rates from the PWLB and other local authorities and at higher rates from banks and building societies. There is no perceived risk that the Council will be unable to raise finance to meet its commitments. The Council also has to manage the risk that it will not be exposed to replenishing a significant proportion of its borrowing at a time of unfavourable interest rates, this is managed by maintaining a spread of fixed rate loans and ensuring that no more than 45% of the Council's borrowing matures in any one financial year.

The Council would only borrow in advance of need where there is a clear business case for doing so and will only do so for the current capital programme or to finance future debt maturities.

The maturity analysis of the principal borrowed as at 31 March 2021 was as follows:

<u>Outstanding</u> <u>31 March 2020</u>	<u>% of Total</u> <u>Portfolio</u>	Total Financial Liabilities	<u>Outstanding</u> <u>31 March 2021</u>	<u>% of Total</u> <u>Portfolio</u>
£000	%		£000	%
(257,875)	71	Public Works Loan Board	(222,597)	68
(19,000)	5	Other Financial Institutions (borrowing)	(19,000)	6
(26,717)	7	Trade Payables	(30,048)	9
(59,329)	17	Other Financial Institutions	(54,144)	17
(362,921)	100		(325,789)	100
Analysis of Loans by Maturity				
(80,322)	22	Less than 1 Year	(55,387)	17
(12,196)	3	Between 1 and 2 years	(9,143)	3
(28,413)	8	Between 2 and 5 years	(28,755)	9
(50,084)	14	Between 5 and 10 years	(52,131)	16
(59,059)	16	Between 10 and 20 years	(42,526)	13
(109,600)	30	Between 20 and 40 years	(124,600)	38
(14,247)	4	Over 40	(4,247)	1
(9,000)	3	Uncertain Date**	(9,000)	3
(362,921)	100		(325,789)	100

*Please note that the authority has £9M of "Lender's option, borrower's option" (LOBO) loans where the lender has the option to propose an increase in the rate payable; the Council will then have the option to accept the new rate or repay the loan without penalty. Due to current low interest rates, in the unlikely event that the lender exercises its option, the Council is likely to repay these loans. The maturity date is therefore uncertain, however it is treated as short term within the accounts because the loans could be called within the year.

The Council's long term liabilities (which include borrowing detailed in the previous table) are shown in the table below:

NOTES TO THE CORE FINANCIAL STATEMENTS

Loans and Other Long term Liabilities Outstanding (Nominal Value)

Source	<u>Outstanding</u> 31 March 2020	<u>Outstanding</u> 31 March 2021
	£000	£000
Public Works Loan Board	(257,875)	(222,597)
Market Debt	(9,000)	(9,000)
Temporary Borrowing	(10,000)	(10,000)
PFI Liabilities	(54,004)	(50,965)
Other long-term Creditors	(37)	(37)
Total	<u>(330,916)</u>	<u>(292,599)</u>

i) Market Risk

Interest Rate Risk

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

- Borrowings at variable rates – the interest expense will rise
- Borrowings at fixed rates – the fair value of the liabilities will fall
- Investments at variable rates – the interest income credited will rise
- Investments at fixed rates – the fair value of the assets will fall

Investments measured at amortised costs and loans borrowed are not carried at fair value, so changes in their fair value will have no impact on Comprehensive Income and Expenditure. However, changes in interest payable and receivable on variable rate borrowings and investments will be posted to the Surplus or Deficit on the Provision of Services.

Movements in the fair value of fixed rate investments measured at fair value will be reflected in the Surplus or Deficit on the Provision of Services.

The Treasury Management Strategy aims to mitigate these risks by setting upper limits on its net exposures to fixed and variable interest rates. At 31 March 2021 £280.10M (120%) (2019/20 £308.4M (114%)) of net principal borrowed (i.e. debt net of investments) was at fixed rates and £47.4M (2019/20 £38.7M) net investments exposed to variable rates.

The table below shows that the risk to the provision of services of changes in interest rates. This reflects the requirement under IFRS 9 to show the impact of a decrease in the fair value of pooled investment funds and that the Council has taken on additional risk by increasing the amount it intends to borrow short term in place of taking long term fixed rate debt. Even if the increase in short term borrowing rate was to materialise it would still be cheaper than borrowing the money long term.

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

NOTES TO THE CORE FINANCIAL STATEMENTS

2019/20		2020/21	
£000		£000	
3,500	Increase in interest payable on variable rate borrowings	1,518	
(500)	Increase in interest payable on variable rate investments	(500)	
1,288	Decrease in fair value of investments held at FVPL (assumes 5%)	1,281	
4,288	Impact on the Provision of Services (Surplus) / Deficit	2,299	
375	Share of overall impact debited/credited to HRA	836	
(62,269)	Decrease in fair value of fixed rate borrowings/liabilities held at amortised cost (<i>no impact on Comprehensive Income and Expenditure</i>)	(62,467)	

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

The Council has £9M (2019: £9M) of "Lender's option, borrower's option" (LOBO) loans with maturity dates between 2035 and 2042 where the lender has the option to propose an increase in the rate payable; the Council will then have the option to accept the new rate or repay the loan without penalty. In the current low interest rate environment, the likelihood of lender increasing the rate is low; however the likelihood will increase in later years should market interest rates rise.

Price Risk

The market prices of the Council's fixed rate bond investments and its units in pooled bond funds are governed by prevailing interest rates and the market risk associated with these instruments is managed alongside interest rate risk as described below.

The Council's investment in a pooled property fund is subject to the risk of falling commercial property prices. This risk is limited by the Council's maximum exposure to property investments. As at 31 March 2021 the Council had £27M (2019/20 £27M) invested in the Local Authority Property Fund which was valued with a reduction in fair value of £0.188M (2019/20 £0.982M reduction), taking the fair value from £26.47M to £26.28M. A 5% fall in commercial property prices would result in a £1.28M (2019/20 £1.29M) charge to the Surplus or Deficit on the Provision of Services which is then transferred to the Pooled Investment Funds Adjustment Account.

18. Debtors

The Long Term Debtors balance represents loans and advances due to the Council as at 31 March 2021.

31 March 2020 £000		31 March 2021 £000	
3,721	Housing Improvement Loans	3,625	
12	Other	0	
3,733		3,625	

The Short Term Debtors balance represents the estimated outstanding liabilities unpaid and income yet to be received as at 31 March 2021.

NOTES TO THE CORE FINANCIAL STATEMENTS

<u>Debtors</u>		
<u>31 March</u> <u>2020</u>		<u>31 March</u> <u>2021</u>
<u>£000</u>		<u>£000</u>
13,564	Central Government	28,502
4,859	Other Local Authorities	4,332
1,881	NHS Bodies	5,682
56,936	Other Entities and Individuals	60,503
(29,650)	Debtors Impairment Allowance	(27,495)
<u>47,590</u>	Total Debtors	<u>71,524</u>

The debtors balance with central government as at 31 March 2021 includes £17.1M due for the government's share of the business rates deficit on the Collection Fund.

19. Cash and Cash Equivalents

Cash comprises cash in hand and demand deposits and will also include bank overdrafts that are repayable on demand and that are integral to the authority's cash management. Balances classified as 'Cash Equivalents' fit the definition of being short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Although the balance shown below suggests that the bank accounts were overdrawn by £2.5M (2019/20 £4.4M), the Council's actual bank account balance at the Bank was a credit balance of £2.6M at 31 March 2021 (£0.2M at 31 March 2020). The balance sheet figures above include end of year accounting entries that are not yet reflected within the actual bank account balance. The Council's bank account will not actually go overdrawn because future income receipts will cover any outstanding year end payment commitments. Alternatively, the Council can withdraw from Money Market Funds and Call Accounts, or access temporary borrowing on the Money Markets if required.

The net balance of Cash and Cash Equivalents is made up of the following elements at the Balance Sheet date:

<u>31 March</u> <u>2020</u>		<u>31 March</u> <u>2021</u>
<u>£000</u>		<u>£000</u>
(4,352)	Bank Accounts	(2,475)
(4,352)		(2,475)
28,850	Money Market Funds	29,358
2,265	Call Accounts	670
102	Petty Cash	102
31,217		30,130
<u>26,865</u>		<u>27,655</u>

20. Creditors

The Creditors balance represents the estimated outstanding liabilities as at 31 March 2021.

The creditors balance with central government includes £17.6M of business support grants where the Council is acting as an agent of the government in administering the funds and £24.7M of S31 business rates reliefs grant. The latter was paid to the Council so that it could continue to pay relevant parties their share of business rates income as estimated in January 2020 without suffering cash flow problems due to the award of

NOTES TO THE CORE FINANCIAL STATEMENTS

significant additional reliefs to support particular business sectors during the pandemic and is now repayable. The increase in the balance for other entities and individuals is mainly due to the timing of the final payment run for the year.

<u>Creditors</u>		<u>31 March</u> <u>2021</u> <u>£000</u>
<u>31 March</u> <u>2020</u> <u>£000</u>		
21,599	Central Government	64,265
3,198	Other Local Authorities	3,003
920	NHS Bodies	2,231
47,140	Other Entities and Individuals	56,775
<u>72,857</u>	Total Creditors	<u>126,274</u>

21. Provisions

Provisions are amounts set aside each year for specific future expenses, the value of which cannot yet be accurately determined. The provisions, as shown in the balance sheet, are analysed in the following table:

	<u>Balance at 31</u> <u>March 2020</u> <u>£000</u>	<u>Additional Provisions</u> <u>Made in Year</u> <u>£000</u>	<u>Amounts Used</u> <u>in Year</u> <u>£000</u>	<u>Balance at 31</u> <u>March 2021</u> <u>£000</u>
<u>General Fund</u>				
NDR Appeals Provision	13,042	9,577	(13,909)	8,710
General Insurance Funds	2,156	793	(340)	2,609
Other Provisions	91	0	(91)	0
Total	<u>15,289</u>	<u>10,370</u>	<u>(14,340)</u>	<u>11,319</u>

The Provisions are estimated to be utilised as follows:

	<u>Short Term</u> <u>Due within 1</u> <u>Year</u> <u>£000</u>	<u>Due between 2</u> <u>to 5 years</u> <u>£000</u>	<u>Over 5 years</u> <u>£000</u>	<u>Total Long</u> <u>Term</u> <u>£000</u>	<u>Balance at 31</u> <u>March 2021</u> <u>£000</u>
<u>General Fund</u>					
NDR Appeals Provision	5,356	3,354	0	3,354	8,710
General Insurance Funds	580	2,029	0	2,029	2,609
Other Provisions	0	0	0	0	0
Total	<u>5,936</u>	<u>5,383</u>	<u>0</u>	<u>5,383</u>	<u>11,319</u>

a) NDR Appeals Provision

Since the introduction of Business Rates Retention Scheme from 1 April 2013, Local Authorities are liable for successful appeals against business rates charged to businesses in year and earlier years. Therefore, the Council's share of the provision (2020/21 49%, 2019/20 74%) has been recognised as the best estimate of the amount that businesses have been overcharged up to 31 March 2021.

NOTES TO THE CORE FINANCIAL STATEMENTS

The estimate is based on an assessment by an external advisor of the likely success of the appeals/challenge outstanding on the Valuation Office Agency (VOA) list and projected appeals. The estimate does not include an amount for challenges for COVID-19 related material changes in circumstances, following ministerial announcement in March 2021 that government will legislate to rule these out.

The amount used in year includes the effect of having a lower share of the provision balance at 31 March 2021 compared to the previous year, with standard 50% Business Rates Retention Scheme being in operation in 2020/21 compared to a 75% Business Rates Retention Pilot in 2019/20.

b) Insurance Provisions

The Insurance Funds are used to meet claims that fall within the policy excess or deductible, i.e. where the Council has taken advantage of 'self-insurance'. All liability and property claims settled below £125,000 and £40,000 respectively are met from the internal insurance funds together with all motor claims below £25,000. Contributions to the fund are reviewed annually based on factors such as exposure, (e.g. employee numbers, nature of operations, sums insured, vehicle numbers), claims experience and outstanding liabilities.

The estimated outstanding provision for 'claims reported but not settled' as at 31 March 2021 amounted to £2.6M (2019/20 £2.1M). Additionally, a further £2.4M (2019/20 £2.4M) is held in an insurance reserve to meet the potential cost of liability claims, including motor and third party injury, for which there is no commitment on the Council to pay the claim. The merits of each claim are investigated and claims will only be considered where it is deemed that the Council has been negligent or is at fault and is legally liable to pay compensation. The provision figure against an individual claim is reviewed periodically by the claims handler when further information becomes available regarding the circumstances of the claim, extent of injury, value of loss etc. The expected timing of any resulting transfer of economic benefit, where it is deemed that compensation should be paid, is impossible to state and it is dependent on the claims settlement process and ultimately the decision of the Courts.

The fund position is fluid which reflects the ongoing process of claims being settled and new claims being received. The insurance funds are however monitored on a monthly basis to ensure that overall provision remains adequate. In addition, consideration is taken of any external factors that might affect the adequacy of the Council's self-insurance fund for example changes to the discount rate which is the rate used to calculate personal injury compensation awards.

c) Other Provisions

All other provisions have been used up during the year.

22. Unusable Reserves

a) Revaluation Reserve

The Revaluation Reserve contains the gains made by the Council arising from increases in the value of its Property, Plant and Equipment. The balance is reduced when assets with accumulated gains are:

- Revalued downwards or impaired and the gains are lost,
- Used in the provision of services and the gains are consumed through depreciation, or
- Disposed of and the gains are realised.

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

NOTES TO THE CORE FINANCIAL STATEMENTS

<u>2019/20</u> <u>£000</u>		<u>2020/21</u> <u>£000</u>
(382,661)	Balance Brought Forward	(411,319)
(77,085)	Upward revaluations of assets	(30,888)
41,991	Downward revaluation of assets and impairment losses not charged to the Surplus/Deficit on the Provision of Services	15,781
(35,094)	Surplus or deficit on revaluation of non-current assets not posted to the Surplus or Deficit on the Provision of Services	(15,107)
5,867	Difference between fair value depreciation and historical cost depreciation	5,591
569	Accumulated Revaluations on Disposals	6,020
<u>(411,319)</u>	Balance Carried Forward	<u>(414,815)</u>

b) Capital Adjustment Account (CAA)

The CAA absorbs the timing differences arising from the different arrangements for accounting for the consumption of non-current assets and for financing the acquisition, construction or enhancement of those assets under statutory provisions. The Account is debited with the cost of acquisition, construction or enhancement as depreciation, impairment losses and amortisations are charged to the Comprehensive Income and Expenditure Statement (with reconciling postings from the Revaluation Reserve to convert fair value figures to a historical cost basis). The Account is credited with the amounts set aside by the Council as finance for the costs of acquisition, construction and enhancement.

The Account contains accumulated gains and losses on Investment Properties and gains recognised on donated assets that have yet to be consumed by the Council.

The Account also contains revaluation gains accumulated on Property, Plant and Equipment before 1 April 2007, the date that the Revaluation Reserve was created to hold such gains.

Note 10 (Adjustments between Accounting Basis and Funding Basis Under Regulations) provides details of the source of all the transactions posted to the Account, apart from those involving the Revaluation Reserve.

NOTES TO THE CORE FINANCIAL STATEMENTS

<u>2019/20</u> £000		<u>2020/21</u> £000
(875,433)	Balance Brought Forward	(861,080)
	Capital Financing	
(8,205)	Usable Capital Receipts	(16,829)
(36,192)	Capital Grants & Contributions	(32,918)
(19,597)	HRA Financing from the Major Repairs Reserve	(19,056)
(11,834)	Revenue Contributions	(7,847)
	Other Movements	
4,023	Revenue Expenditure Funded from Capital under Statute	6,081
	Net gains/losses from fair value adjustments on Investment	
15,187	Properties	6,309
1,458	Amortisation of Intangibles	1,774
76,010	Depreciation (and similar amounts) and Movements on Assets charged to Revenue	8,931
9,217	Disposals	13,575
(5,867)	Historic Cost Depreciation Adjustment	(5,591)
(569)	Accumulated Revaluations on Disposals	(6,020)
(9,303)	Provision for the Financing of Capital Investment	(9,907)
25	Other adjustments	78
<u>(861,080)</u>	Balance Carried Forward	<u>(922,500)</u>

c) 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.

NOTES TO THE CORE FINANCIAL STATEMENTS

<u>2019/20</u>		<u>2020/21</u>
<u>£000</u>		<u>£000</u>
459,640	Balance Brought Forward	492,146
8,970	Remeasurement of the net defined benefit liability/(asset)	61,780
55,716	Reversal of items relating to retirement benefits debited or credited to the Surplus or deficit on the Provision of Services in the comprehensive Income and Expenditure Statement	55,505
(32,180)	Employer's pension contributions and direct payments to pensioners payable in the year.	(22,712)
<u>492,146</u>	Balance Carried Forward	<u>586,719</u>

d) Collection Fund Adjustment Account

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

The large difference for business rates arises from the additional business rates reliefs given to support particular business sectors during the pandemic which was not reflected in the business rates income estimated in January 2020 and paid across to the General Fund in 2020/21.

<u>2019/20</u>		<u>2020/21</u>
<u>£000</u>		<u>£000</u>
(5,516)	Balance Brought Forward	1,159
3,490	Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements	(1,230)
3,185	Amount by which business rates income credited to the Comprehensive Income and Expenditure Statement is different from business rates income calculated for the year in accordance with statutory requirements	25,861
<u>1,159</u>	Balance Carried Forward	<u>25,790</u>

e) Accumulated Absences Account

The Accumulated Absences Account absorbs the differences that would otherwise arise on the General Fund Balance from accruing for compensated absences, for staff, earned but not taken in the year, e.g. annual leave entitlement carried forward at 31 March. Statutory arrangements require that the impact on the General Fund Balance is neutralised by transfers to or from the Account. For 2020/21 annual leave carried forward has been accrued for non-teaching as well as teaching staff because the amount of leave non-teaching staff could carry forward was increased significantly in response to the pandemic.

NOTES TO THE CORE FINANCIAL STATEMENTS

<u>2019/20</u>		<u>2020/21</u>
	£000	£000
1,730	Balance Brought Forward	1,949
(1,730)	Settlement or cancellation of accrual made at the end of the preceding year	(1,949)
<u>1,949</u>	Amounts accrued at the end of the current year	<u>3,905</u>
<u>1,949</u>	Balance Carried Forward	<u>3,905</u>

f) Dedicated Schools Grant Adjustment Account

Regulations effective from 1 April 2020 require that a Schools Budget deficit must be carried forward to be funded from future Dedicated Schools Grant (DSG) income, unless permission is sought from the Secretary of State for Education to fund the deficit from the General Fund. They also require that where a local authority has a deficit on its Schools Budget relating to its accounts for a financial year beginning on 1 April 2020, 1 April 2021 or 1 April 2022, it must not charge the amount of that deficit to a revenue account, but instead record any such deficit in a separate account. The Dedicated Schools Grant Adjustment Account has been created for that purpose and the in-year deficit for 2020/21 and cumulative deficit brought forward as at 1 April 2020 have been transferred into that account.

Further details on the deployment of DSG are provided in Note 28.

<u>2019/20</u>		<u>2020/21</u>
	£000	£000
0	Balance Brought Forward	0
	Transfer of the opening Dedicated Schools Grant deficit from earmarked revenue reserves	7,420
	Reversal of the deficit on the Dedicated Schools Grant within the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement	1,514
<u>0</u>	Balance Carried Forward	<u>8,934</u>

NOTES TO THE CORE FINANCIAL STATEMENTS

23. Notes to Cash Flow Statement

a) Reconciliation of Net Surplus or (Deficit) on the Provision of Services to Net Cash Flows from Operating Activities

<u>2019/20</u>		<u>2020/21</u>
£000		£000
(31,850)	Net Surplus or (Deficit) on the Provision of Services	15,351
	Adjust net surplus or deficit on the provision of services for non cash movements	
43,647	Depreciation	47,455
32,363	Movement on assets charged to revenue	(38,524)
1,458	Amortisation	1,774
0	Adjustments for effective interest rates	0
982	Adjustment for movements in fair value of investments classified as Fair Value through Profit & Loss	188
(920)	Increase/(Decrease) in Interest Creditors	(269)
(10,674)	Increase/(Decrease) in Creditors	59,554
16	(Increase)/Decrease in Interest and Dividend Debtors	6
(8,659)	(Increase)/Decrease in Debtors	(5,921)
(18)	(Increase)/Decrease in Inventories	(184)
23,536	Pension Liability	32,793
(4,168)	Contributions to/(from) Provisions	(3,970)
9,217	Carrying amount of non-current assets sold (property plant and equipment, investment property and intangible assets)	13,575
15,187	Movement in Investment Property Values	6,309
(3,696)	Other Items	18
98,271		112,804
	Adjust for items included in the net surplus or deficit on the provision of services that are investing or financing activities	
(57,595)	Capital Grants & Contributions credited to surplus or deficit on the provision of services	(31,037)
(12,117)	Proceeds from the sale of property plant and equipment, investment property and intangible assets	(4,479)
0	Repayment of loans - transfer to the Capital Receipts Reserve upon receipt of cash	(78)
(160)	Allowable deduction arising from disposal	(66)
(69,872)		(35,660)
(3,451)	Net Cash Flows from Operating Activities	92,495

b) Operating Activities – Interest

<u>2019/20</u>		<u>2020/21</u>
£000		£000
	Operating activities within the cashflow statement include the following cash flows relating to interest	
801	Interest Received	1,860
(16,085)	Interest Paid	(14,902)

NOTES TO THE CORE FINANCIAL STATEMENTS

c) Cash Flows from Investing Activities

<u>2019/20</u>		<u>2020/21</u>
£000		£000
	Cash Flows from Investing Activities	
(88,398)	Property, Plant and Equipment Purchased	(80,346)
(73,840)	Purchase of short term investments	(208,020)
12,312	Proceeds from the sale of property plant and equipment, investment property and intangible assets	4,545
87,440	Proceeds from short-term and long-term investments	208,020
40,133	Other Receipts from Investing Activities - Capital Grants & Contributions Received	45,148
<u>(22,353)</u>	Total Cash Flows from Investing Activities	<u>(30,653)</u>

d) Cash Flows from Financing Activities

<u>2019/20</u>		<u>2020/21</u>
£000		£000
	Cash Flows from Financing Activities	
124,000	Cash receipts of short and long term borrowing	40,000
2,597	Billing Authorities - Council Tax and NNDR adjustments	(22,371)
(93,833)	Repayment of Short-Term and Long-Term Borrowing	(75,642)
(2,874)	Cash payments for the reduction of the outstanding liabilities relating to finance leases and on-balance sheet PFI contracts	(3,039)
<u>29,890</u>	Total Cash Flows from Financing Activities	<u>(61,052)</u>

e) Make-up of Cash and Cash Equivalents

<u>2019/20</u>		<u>2020/21</u>
£000		£000
	Makeup of Cash and Cash Equivalents	
102	Cash and Bank Balances	102
31,115	Cash Investments - regarded as cash equivalents	30,028
(4,352)	Bank Overdraft	(2,475)
<u>26,865</u>		<u>27,655</u>

f) Changes in liabilities

	<u>1 April 2020</u>	<u>Cash Flows</u>	<u>Non-Cash</u>	<u>31 March</u>
	£000	£000	Movements	2021
			£000	£000
Long-term borrowing	222,597	0	(8,750)	213,847
Short-term borrowing	55,214	(36,214)	9,417	28,417
Other deferred liabilities	13,826	(364)		13,462
Finance leases and PFI contracts	54,004	(3,039)		50,965
Total	345,641	(39,617)	667	306,691

NOTES TO THE CORE FINANCIAL STATEMENTS

24. Agency Services

Under a number of statutory powers, the Council is permitted to undertake work on behalf of other bodies. Under such arrangements all expenditure, including administration costs, would be reimbursed by the entity concerned.

The collection of council tax and business rates income is in substance an agency arrangement:

Cash collected by Southampton City Council from council tax payers belongs proportionately to Southampton City Council and the major preceptors. There will therefore be a debtor/creditor position between Southampton City Council and each major preceptor to be recognised, since the net cash paid to each major preceptor in the year will not be its share of the cash collected from council tax payers.

Cash collected from business rates payers by Southampton City Council (net of the cost of collection allowance) belongs proportionately to Southampton City Council (49%), Government (50%) and Hampshire Fire and Rescue Authority (1%) (2019/20 Southampton City Council 74%, Government 25% and Hampshire Fire and Rescue Authority 1%). There will therefore be a debtor/creditor position between Southampton City Council and Government and HFRA to be recognised since the cash paid in year will not be its share of the cash collected from business rates payers.

The Council also acts as agent under the Business Improvement District (BID) scheme.

During 2020/21 the Council has made grant payments to businesses, adult social care providers and members of the community on behalf of the government. The Council is acting as an agent in making these disbursements and the income and expenditure to which they relate are not included within the Comprehensive Income and Expenditure Statement. Further details of the grant funding received by the Council which has been disbursed is provided in Note 37.

25. Members' Allowances

The total of members' allowances paid in was £0.790M (2019/20 was £0.763M) as detailed in the table below.

	<u>31 March</u> <u>2020</u> £000	<u>31 March</u> <u>2021</u> £000
Salaries	607	623
Allowances	152	162
Expenses	4	5
Total	<u>763</u>	<u>790</u>

26. Officers' Remuneration

The number of employees (including Senior Officers) whose remuneration, including redundancy payments but excluding pension contributions, was £50,000 or more is shown in the table below.

a) Senior Officers' Remuneration

Local authorities are required to disclose the remuneration details of senior employees, as defined by the CIPFA Code of Practice as derived from (and supplemented by) the overarching requirements of the Accounts and Audit (England) Regulations 2015. Senior employees are the Chief Executive, Statutory Officers and the senior managers (whose salary is greater than £50,000) reporting directly to the Chief

NOTES TO THE CORE FINANCIAL STATEMENTS

Executive. For comparative purposes there is also a table showing the same senior employee remunerations for 2019/20.

<u>Band £</u>	<u>Number of Employees</u>					
	<u>2019/20</u>			<u>2020/21</u>		
	<u>Schools</u>	<u>Other</u>	<u>Total</u>	<u>Schools</u>	<u>Other</u>	<u>Total</u>
50,000 - 54,999	61	74	135	65	95	160
55,000 - 59,999	36	29	65	45	61	106
60,000 - 64,999	23	22	45	18	27	45
65,000 - 69,999	20	8	28	26	14	40
70,000 - 74,999	10	7	17	19	4	23
75,000 - 79,999	7	1	8	6	4	10
80,000 - 84,999	3	4	7	4	7	11
85,000 - 89,999	1	1	2	1	0	1
90,000 - 94,999	0	1	1	2	3	5
95,000 - 99,999	2	4	6	0	1	1
100,000 - 104,999	1	0	1	1	2	3
105,000 - 109,999	2	1	3	2	2	4
110,000 - 114,999	0	1	1	0	1	1
115,000 - 119,999	1	2	3	0	1	1
120,000 - 124,999	1	1	2	1	0	1
125,000 - 129,999	1	1	2	0	0	0
130,000 - 134,999	0	0	0	1	3	4
135,000 - 139,999	0	0	0	0	1	1
140,000 - 144,999	0	2	2	0	0	0
145,000 - 149,999	0	0	0	0	0	0
150,000 - 154,999	0	0	0	0	1	1
155,000 - 159,999	0	0	0	0	0	0
160,000 - 164,999	0	0	0	0	0	0
165,000 - 169,999	0	0	0	0	0	0
170,000 - 174,999	0	1	1	0	0	0
175,000 - 179,999	0	0	0	0	0	0
180,000 - 184,999	0	0	0	0	1	1
	169	160	329	191	228	419

NOTES TO THE CORE FINANCIAL STATEMENTS

2020/21

Post Holder	Salary (including fees & allowances)	Expense Allowances	Compensation for loss of office	Benefits in Kind	Total Remuneration excluding pension contributions 2020/21	Pensions contributions (see Note 4)	Total Remuneration including pension contributions 2020/21
	£	£	£	£	£	£	£
Chief Executive - Sandy Hopkins	181,881				181,881	26,218	208,099
Executive Director - Business Services (Deputy Chief Executive) - Mike Harris	134,417				134,417	24,464	158,881
Executive Director - Communities, Culture & Homes - Mary D'Arcy	134,417	33			134,450	24,464	158,914
Executive Director - Place - Kate Martin	134,417				134,417	24,464	158,881
Executive Director - Wellbeing (Children & Learning) until 05/06/2020 - Hilary Brooks (see Note 1)	30,542		63,000		93,542	4,299	97,841
Executive Director - Wellbeing (Children & Learning) from 07/09/2020 - Robert Henderson	85,000				85,000	15,470	100,470
Executive Director - Wellbeing (Health & Adults DASS) until 28/03/2021 - Grainne Siggins (see Note 2)	150,962	3,508			154,470	26,087	180,557
Service Director Legal & Governance - Richard Ivory	118,848	81			118,929		118,929
Executive Director - Finance & Commercialisation - John Harrison	138,126				138,126		138,126
	1,108,610	3,622	63,000	-	1,175,232	145,466	1,320,698

Note 1

Between 06/06/2020 and 06/09/2020 the Wellbeing (Children & Learning) role was undertaken by Grainne Siggins, in addition to Wellbeing (Health & Adults DASS).

Note 2

Between 01/03/2021 and 31/03/2021 this role was undertaken by Guy van Dichele via an external company. Payment for this period was £22,080 excluding VAT.

Note 3

There were no bonuses paid.

Note 4

In 2020/21 the employer's contribution rate for the Local Government Pension Scheme was 18.2%.

NOTES TO THE CORE FINANCIAL STATEMENTS

2019/20

<u>Post Holder</u>	<u>Salary (including fees & allowances)</u>	<u>Expense Allowances</u>	<u>Compensation for loss of office</u>	<u>Benefits in Kind</u>	<u>Total Remuneration excluding pension contributions 2019/20</u>	<u>Pensions contributions (see Note 6)</u>	<u>Total Remuneration including pension contributions 2019/20</u>
	£	£	£	£	£	£	£
Chief Executive - Sandy Hopkins	171,032				171,032	34,420	205,452
Chief Operations Officer until 31/10/2019 - Richard Crouch (see Note 1)	86,943		42,769		129,712	213,366	343,078
Executive Director - Business Services (Deputy Chief Executive) - Mike Harris	141,808	212			142,020	22,831	164,851
Executive Director - Communities, Culture & Homes from 23/03/2020 - Mary D'Arcy	3,165				3,165	510	3,675
Executive Director - Place from 29/02/2020 - Kate Martin	11,278				11,278	1,816	13,094
Executive Director - Wellbeing (Children & Learning) - Hilary Brooks	122,896	1,049			123,945	19,786	143,731
Executive Director - Wellbeing (Health & Adults DASS) from 06/01/2020 - Grainne Siggins (see Note 2)	30,946				30,946	4,982	35,928
Joint Director of Public Health until 22/11/2019 - Jason Horsley (see Note 3)	72,540				72,540	11,441	83,981
Service Director Legal & Governance - Richard Ivory	115,667	1,523			117,190		117,190
Executive Director - Finance & Commercialisation from 21/10/2019 - John Harrison (see Note 4)	58,376	8,773			67,149		67,149
	814,651	11,557	42,769	-	868,977	309,152	1,178,129

Note 1

Pension contributions include £199,368 in respect of loss of office.

Note 2

Between 01/04/2019 and 05/01/2020 the DASS role was undertaken by Stephanie Ramsey via NHS Southampton City CCG. Payment for this period was £5,000.

Note 3

This role was jointly funded by Southampton City Council and Portsmouth City Council. Although all costs are shown here, 50% is recovered from Portsmouth City Council.

Note 4

Between 01/04/2019 and 20/10/2019 this role was undertaken by John Harrison via an external company. Payment for this period was £133,340 excluding VAT.

Note 5

There were no bonuses paid.

Note 6

In 2019/20 the employer's contribution rate for the Local Government Pension Scheme was 16.1%.

NOTES TO THE CORE FINANCIAL STATEMENTS

b) Exit Packages

The Council terminated the contracts of a number of employees, incurring liabilities of £0.4M (2019/20 £3.2M) in respect of termination payments including redundancy payments and contributions for the early release of pension payable to the pension fund. Details of exit packages for the past two years are shown in the table below.

<u>Exit Package Cost Band</u> (including special payments)	<u>Number of compulsory Redundancies</u>		<u>Number of Other Departures agreed</u>		<u>Total Number of packages by Cost Band</u>		<u>Total Cost of Exit Packages in each Band</u>	
	<u>2019/20</u>	<u>2020/21</u>	<u>2019/20</u>	<u>2020/21</u>	<u>2019/20</u>	<u>2020/21</u>	<u>2019/20</u>	<u>2020/21</u>
							£000	£000
£0-£20,000	11	4	43	14	54	18	457	170
£20,001-£40,000	2	1	17	4	19	5	541	136
£40,001-£60,000	1	0	9	2	10	2	498	0
£60,001-£80,000	0	0	5	0	5	0	346	137
£80,001-£100,000	0	0	2	0	2	0	187	0
£100,001-£150,000	0	0	3	0	3	0	375	0
£150,000+	0	0	4	0	4	0	834	0
Total	14	5	83	20	97	25	3,238	443

27. External Audit Costs

The Council's appointed auditors are Ernst & Young. The Council incurred the following fees relating to external audit and inspection.

<u>2019/20</u>	<u>2020/21</u>
£000	£000
110 Fees payable to Ernst & Young with regard to external audit services carried out by the appointed auditor for the year	110
4 Fees payable to Ernst & Young in respect of grant claims and returns for the year	0
8 Fees payable to Fiander Tovell in respect of grant claims and returns for the year	7
12 Fees payable to KPMG in respect of grant claims and returns for the year	10
134	127

28. Dedicated Schools Grants

The Council's expenditure on schools is grant funded, provided by the Department for Education (DfE) and is mainly the Dedicated Schools Grant (DSG). DSG is ring-fenced and can only be applied to meet expenditure properly included in the Schools Budget. The Schools Budget includes elements for a restricted range of services provided on an authority-wide basis and for the Individual Schools Budget, which is divided into a budget share for each school. Over and under spends on the two elements are required to be accounted for separately.

Details of the deployment of DSG receivable for the year are as follows:

NOTES TO THE CORE FINANCIAL STATEMENTS

Details of the Deployment of DSG Receivable for 2020/21 are as follows:

	<u>Central</u> <u>Expenditure</u>	<u>Individual</u> <u>Schools</u> <u>Budget</u>	<u>Total</u>
	£000	£000	£000
Final DSG for 2020/21 before Academy recoupment			199,614
Academy figure recouped for 2020/21			(63,905)
Total DSG after Academy Recoupment for 2020/21			135,709
Plus: Brought forward from 2019/20			(7,420)
Agreed initial budgeted distribution in 2020/21	6,911	121,378	128,289
In year adjustments		(268)	(268)
Final Budgeted Distribution for 2020/21	6,911	121,110	128,021
Less: Actual central expenditure	(15,376)		(15,376)
Less: Actual ISB deployed to schools		(121,579)	(121,579)
Carry Forward to 2021/22	(8,465)	(469)	(8,934)

The overspend carried forward mainly relates to the cost of additional out of city placements and higher numbers and more complex level of pupils with Special Educational Needs (SEN). Plans have been made to repay the DSG overspend over the coming years in line with DfE guidance.

29. Related Parties

The Accounting Code of Practice requires the Council to disclose material transactions and outstanding balances with related parties. Reduced disclosure requirements apply to related party transactions with central government departments, government agencies, NHS bodies and other local authorities. For the City Council a "Related Party" is considered to be:

- Central Government and other local authorities,
- Any joint arrangement with another public body,
- Any subsidiary, associated company or joint venture,
- Elected Members,
- Senior Officers,
- The Council's pension fund
- Entities that are controlled or jointly controlled by elected members or senior officers, or over which they have significant influence.

During the year major transactions with related parties arose with: Hampshire Pension Fund and the Teachers' Pension Agency as disclosed in Note 33 Pension Schemes accounted for as a Defined Contribution Schemes and Note 34 Defined Benefit Pension Schemes; Southampton Clinical Commissioning Group as disclosed in Note 39 Pooled Budgets; and Central Government which has effective control over the general operation of the Council, as it is responsible for providing the statutory framework within which the Council operates and provides the majority of its funding in the form of grants, shown in Note 37 Capital and Revenue Grants & Contributions, Receipts in Advance. The payment of precepts to the Hampshire Police and Crime Commissioner and Hampshire Fire & Rescue Authority are not considered to be related party

NOTES TO THE CORE FINANCIAL STATEMENTS

transactions, as the Collection Fund operates on an agency basis.

The city of Southampton is preparing to submit a bid to become the UK City of Culture 2025. Southampton City Council, along with other partners across the city, is helping to support the bid process. Southampton 2025 Trust is the organisation that will be leading on the submission of the bid. The Council provided £0.551M of grant funding and benefits-in-kind to support the bid process in 2020/21 (of which £0.067M was due to the Trust as at 31 March 2021).

For elected members and senior officers it also includes members of their close family, their households and any company, trust etc. in which they have a controlling interest. Elected members and senior officers were requested to disclose any related party transactions which are as follows:

- One councillor is a trustee of Yellow Door which received service payments of £0.460M from the Council in 2020/21. The councillor was not involved in the award of the contract.
- Four councillors had interests in organisations that received funding administered by the Council as part of the government's schemes to support businesses during the pandemic. The total amount awarded to these organisations was £0.086M and none of the councillors had any involvement in the award of the grants.

30. Capital Expenditure

Capital expenditure and how it was financed is analysed below:

NOTES TO THE CORE FINANCIAL STATEMENTS

<u>CAPITAL EXPENDITURE AND FINANCING</u>		
	<u>2019/20</u>	<u>2020/21</u>
	£000	£000
Opening Capital Financing Requirement	496,753	508,710
<i>Capital Investment</i>		
Intangible assets	1,792	3,449
Property Plant & Equipment	87,552	73,385
Revenue Expenditure Funded from Capital under Statute	4,023	6,081
Heritage Assets	0	0
Investment Properties	0	1,263
Financial Instruments (Housing Improvement Loans)	3,721	(18)
<i>Sources of Finance</i>		
Capital Receipts	(8,205)	(16,829)
Government grants & other contributions	(36,192)	(32,918)
Use of Major Repairs Reserve	(19,597)	(19,056)
Direct Revenue Financing	(11,834)	(7,847)
Donated Asset	0	0
MRP	(9,303)	(9,907)
Closing Capital Financing Requirement	<u>508,710</u>	<u>506,313</u>
Increase in underlying need to borrow (unsupported by Government financial assistance)	21,260	7,510
MRP	(9,303)	(9,907)
Increase / (Decrease) in Capital Financing Requirement	<u>11,957</u>	<u>(2,397)</u>

31. Leases

a) Council as a Lessor

Operating Leases

The Council leases property and equipment under operating leases for the following purposes:

- The provision of community services, such as tourism services and community centres;
- Economic development purposes to provide suitable affordable accommodation for local businesses;
- Investment purposes.

The future minimum lease payments receivable under non-cancellable leases in future years and contingent rents for the year are:

NOTES TO THE CORE FINANCIAL STATEMENTS

	31 March	31 March
	2020	2021
	£000	£000
Not later than one year	6,620	7,221
Later than one year and not later than five years	20,654	23,568
Later than five years	546,004	540,548
	573,278	571,337
Contingent Rents *	1,352	275

*Significant reduction due to Covid-19 (West Quay largely closed)

The amounts in the above table include “market value” property ground rents which have all been treated as operating leases even where the period of the lease exceeds 150 years.

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

32. PFI and Similar Contracts

The Council is currently involved with five PFI and Similar Contracts, three of which require to be accounted for on Balance Sheet in accordance with our Accounting Policy (PFI schools, Hampshire Waste Management Contract, PFI Street Lighting) and two which are not (Northlands & Oak Lodge Nursing Homes run by BUPA Care Homes Limited).

a) On Balance Sheet

PFI Schools

A PFI project was approved by the Government to significantly improve the quality of the buildings in three of the City’s secondary schools and also to provide additional places in two of them. The works were procured under the PFI whereby a consortium of private sector companies, known as Pyramid Schools (Southampton) Ltd designed, built, financed and now operate the schools. The contract start date was 29 October 2001 and will terminate on 31 August 2031. The estimated capital value of these schemes is £37M.

The consortium provides building related services such as cleaning, care-taking and repairs, but teaching and curriculum related staff continue to be employed directly by the Council. The Council started to pay an annual fee to the consortium following the completion of the first school during the 2005/06 financial year. The fee, known as the ‘Unitary Charge,’ covers both the running costs of the school buildings and the cost of building the schools.

The cost of the project is being met partly through additional grant from Central Government and partly through existing budgets (either from budgets delegated to the schools concerned or controlled by the Council).

Hampshire Waste Contract

At the end of the 1980’s it became evident that Hampshire was facing a waste disposal crisis. Landfill space was rapidly running out, incinerators built in the 1970’s were not going to meet EU emission regulations and waste levels were continuing to rise.

In 1995 the Hampshire Waste Strategy was adopted which led to Project Integra, which is a unique partnership between the Council, Hampshire County Council, Portsmouth City Council, the 11 District Councils, and Veolia Environmental Services.

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In 1996 the Council (11.48% share) entered into a tri-partite arrangement with Hampshire County Council (77%) and Portsmouth City Council (11.52%), in respect of the provision of Waste Management Services from Veolia Environment Services. Although this arrangement was entered into pre PFI it requires to be accounted for as an on Balance Sheet PFI type arrangement under the Code.

Broadly, the services contract involved the building and running of three Energy Recovery Facilities and two Material Recycling Facilities and the provision of Waste Management Services within Hampshire for a 25 year period. Southampton and Portsmouth City Councils have worked with Hampshire County Council, as the lead authority, to calculate the fair value of the Assets built for the servicing of the Waste Management Contract. The Council has accounted for its share of the Assets (11.48%) on the basis of its share of the Annual Unitary Charge.

PFI Street Lighting

From 1 April 2010, the Council entered into a 25 year PFI contract with Tay Valley Lighting to provide the city's street lighting services. Over the initial five years of the contract, the contractor replaced all life expired apparatus with new energy-efficient apparatus. This 'core investment programme' has a capital value of £26M and includes the replacement of 17,000 of the city's 28,000 street lights and associated apparatus. The contractor is also responsible for the operation and maintenance, to agreed performance standards, of all apparatus (new and existing) for the life of the contract. The Council pays a single fee to the contractor for these services (capital investment, operation and maintenance). Payment of this 'unitary charge' is funded partly through a PFI annuity grant received from Central Government and partly through existing Council budgets for street lighting.

b) Off Balance Sheet

BUPA Care Homes (Northlands & Oak Lodge Nursing Homes)

The purpose of these Public Private Partnership (PPP) projects is to increase the number of nursing care beds within the city and in turn secure, under a block contract, the Council's accessibility to the beds. The private sector partner for this PPP is BUPA Care Homes Ltd. The Council has agreed to lease the land on which the nursing homes have been built to BUPA for nil consideration for the duration of 50 years.

BUPA manages both the property and service provision. The Council is not involved in direct service management or providing any staff. The Council has block contracts for 25 years (Northlands July 2005 – July 2030 and Oak Lodge Feb 2011 – Feb 2035), to purchase beds, (Northlands 72 of 101, and Oak Lodge 40 of 71) at the Nursing Homes annually.

Payment is made monthly to BUPA, based on the 'Unitary Charge', which is the price per bed per week.

A review of these arrangements indicates that they do not require to be accounted for as On Balance Sheet PFI schemes as the Council does not control the residual interest in the Assets (Nursing Homes) at the end of the 25 year service concession period.

The PFI and service concession arrangements that are included within Fixed Asset Balances are as follows. An adjustment has been made to the opening balances to reflect amendments to valuations made between the draft and final 2019/20 accounts, for which the PFI and Similar Contracts note was not updated.

NOTES TO THE CORE FINANCIAL STATEMENTS

	<u>PFI - Schools</u>	<u>Hampshire Waste</u>	<u>PFI - Street</u>	<u>Total</u>
	<u>£000</u>	<u>Contract</u>	<u>Lighting</u>	<u>£000</u>
	<u>£000</u>	<u>£000</u>	<u>£000</u>	<u>£000</u>
Cost or Valuation				
At 1 April 2020	45,273	12,309	25,819	83,401
Adjustment to Opening Balance	(1,906)			(1,906)
	43,367	12,309	25,819	81,495
Additions	2			2
Disposals				0
Revaluations	(2,058)			(2,058)
Impairments				0
At 31 March 2021	41,311	12,309	25,819	79,439
Depreciation & Impairment				
At 1 April 2020	(1,906)	(1,774)	(5,602)	(9,282)
Adjustment to Opening Balance	1,906		34	1,940
	0	(1,774)	(5,568)	(7,342)
Depreciation Charge for the Year	(1,846)	(887)	(827)	(3,560)
Disposals				0
Revaluations	1,846			1,846
Impairments				0
At 31 March 2021	0	(2,661)	(6,395)	(9,056)
Balance Sheet amount at 31 March 2021	41,311	9,648	19,424	70,383
Balance Sheet amount at 31 March 2020	43,367	10,535	20,217	74,119

The Finance Creditor associated with the above schemes within the Balance Sheet is as follows:

	<u>PFI - Schools</u>	<u>Hampshire Waste</u>	<u>PFI - Street</u>	<u>Total</u>
	<u>£000</u>	<u>Contract</u>	<u>Lighting</u>	<u>£000</u>
	<u>£000</u>	<u>£000</u>	<u>£000</u>	<u>£000</u>
Balance 1 April 2020	28,357	4,924	20,723	54,004
New Schemes in 2020/21	0	0	0	0
Repayments	(1,603)	(1,012)	(424)	(3,039)
Balance 31 March 2021	26,754	3,912	20,299	50,965
Due within 1 Year				
Balance 1 April 2020	1,603	1,012	424	3,039
Repayments	(1,603)	(1,012)	(424)	(3,039)
Due within 1 Year	1,839	1,107	500	3,446
Balance 31 March 2021	1,839	1,107	500	3,446
Long Term Creditor Balance 31 March 2021	24,915	2,805	19,799	47,519

The Future Obligations in respect of the three on Balance Sheet PFI / service concession arrangements are as follows:

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	<u>PFI - Schools</u>				<u>Hampshire Waste</u>			<u>PFI - Street Lighting</u>			<u>Total</u>
	<u>Liability</u>	<u>Interest</u>	<u>Service Charges</u>	<u>Contingent Rents</u>	<u>Liability</u>	<u>Interest</u>	<u>Service Charges</u>	<u>Liability</u>	<u>Interest</u>	<u>Service Charges</u>	
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
within 1 year	1,839	2,274	1,844	1,094	1,107	704	6,289	500	2,418	1,306	19,375
within 2 to 5 years	8,115	7,607	8,372	5,897	2,805	959	23,552	2,979	8,931	5,586	74,803
within 6 to 10 years	15,163	4,910	10,805	10,910				6,968	8,421	7,868	65,045
within 11 to 15 years	1,637	139	1,280	864				9,852	2,845	7,089	23,706
Balance 31 March 2021	26,754	14,930	22,301	18,765	3,912	1,663	29,841	20,299	22,615	21,849	182,929

The future obligations in respect of the two Off Balance Sheet Public Private Partnerships (PPP) arrangements are as follows:

	<u>BUPA Care Homes</u>		
	<u>Northlands</u>	<u>Oak Lodge</u>	<u>Total</u>
	£000	£000	£000
within 1 year	1,633	1,685	3,318
within 2 to 5 years	6,532	6,741	13,273
within 6 to 10 years	4,360	8,426	12,786
within 11 to 15 years		6,488	6,488
Balance 31 March 2021	12,525	23,340	35,865

Payments for the year in respect of PFI and service concession arrangements were as follows:

	<u>Liability</u>	<u>Interest</u>	<u>Service Charges</u>	<u>Contingent Rents</u>	<u>Total</u>
	£000	£000	£000	£000	£000
PFI Schools	1,603	2,410	1,733	1,128	6,874
Hampshire Waste	1,012	887	6,068		7,967
PFI Street Lighting	424	2,470	1,272		4,166
BUPA Care Homes					
Northlands			2,430		2,430
Oak Lodge			1,546		1,546
Totals	3,039	5,767	13,049	1,128	22,983

33. Pension Schemes Accounted for as Defined Contribution Schemes

Teachers employed by the Council are members of the Teachers' Pension Scheme, administered by Capita Teachers' Pensions on behalf of the Department for Education (DfE). The Scheme provides teachers with specified benefits upon their retirement and the authority contributes towards the costs by making contributions based on a percentage of members' pensionable salaries.

NOTES TO THE CORE FINANCIAL STATEMENTS

The scheme is a multi-employer defined benefit scheme. However, the scheme is unfunded and it is not possible to identify the Council's share of the underlying liabilities. The scheme is therefore accounted for as a defined contribution scheme and the Department for Education (DfE) uses a notional fund as the basis for calculating the employers' contribution rate paid by local authorities. Valuations of the notional fund are undertaken every four years.

The scheme has in excess of 3,700 participating employers and consequently the authority is not able to identify its share of the underlying financial position and performance of the scheme with sufficient reliability for accounting purposes. For the purposes of this Statement of Accounts, it is therefore accounted for on the same basis as a defined contribution scheme. The Council is not able to identify its proportion of the total contributions into the Teacher's Pension Scheme with sufficient reliability for accounting purposes.

In 2020/21 the Council paid £11.0M to Teachers' Pensions in respect of teachers' retirement benefits, representing 23.7% of pensionable pay (2019/20 £8.3M and 20.4%). The contributions due to be paid in the next financial year are estimated to be £11.3M.

The Council is responsible for the costs of any additional benefits awarded upon early retirement outside of the terms of the teachers' scheme. These costs are accounted for on a defined benefit basis and detailed in Note 34.

34. Defined Benefit Pension Schemes

a) Participation in Pension Schemes

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

The Council participates in the Local Government Pension Scheme (LGPS) which is administered locally by Hampshire County Council - this is a funded defined benefit pension scheme, meaning that the Council and employees pay contributions into a fund calculated at a level intended to balance the pension liabilities with investment assets.

The Council also makes arrangements for the award of discretionary post-retirement benefits upon early retirement – this is an unfunded defined benefit arrangement, under which liabilities are recognised when awards are made. However, there are no investment assets built up to meet these pension liabilities, and cash has to be generated to meet actual pension payments as they eventually fall due.

The Hampshire County Council pension scheme is operated under the regulatory framework for the Local Government Pension Scheme and the governance of the scheme is the responsibility of the pensions committee of Hampshire County Council. Policy is determined in accordance with the Pensions Fund Regulations. The investment managers of the fund are appointed by the committee and consist of the Deputy Chief Executive and Director of Corporate Resources of Hampshire County Council and JPM Investment Fund Managers.

The objective of the scheme is to keep employers' contributions at as constant a rate as possible. The Council has agreed a strategy with the scheme's actuary to achieve a funding level of 100% over the next 15 years. Funding levels are monitored on an annual basis. The next triennial valuation is due to be completed as at 31 March 2022.

The principal risks to the Council of the scheme are the longevity assumptions, statutory changes to the scheme, structural changes to the scheme (i.e. large-scale withdrawals from the scheme), changes to inflation, bond yields and the performance of the equity investments held by the scheme. These are mitigated to a certain extent by the statutory requirement to charge the General Fund and Housing Revenue Account the amounts required by statute as described in the accounting policies note.

b) Transactions Relating to Post-employment Benefits

In 2020/21 the Council paid an employer's contribution of £29.2M (2019/20 £33.2M) into Hampshire County

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Council's Pension Fund. The employer's rate for 2020/21 was 18.2% of employees' pay (2019/20 16.1% plus a fixed payment).

The total contributions expected to be made to the Local Government Pension Scheme by the Council in the year to 31 March 2022 is £22.863M. The weighted average duration of the defined benefit obligation for the scheme members is 20.8 years.

The Council recognises the cost of retirement benefits in the Net Cost of Services when they are earned by employees, rather than when the benefits are eventually paid as pensions. However, the charge we are required to make against council tax is based on the cash payable in the year, so the real cost of post-employment / retirement benefits is reversed out of the General Fund and Housing Revenue Account via the Movement in Reserves Statement (MiRS). The table below shows the transactions that have been made in the Comprehensive Income and Expenditure Statement and the General Fund Balance via the MiRS during the year.

	Local Government Pension Scheme		Discretionary Benefits Arrangements		Total	
	2019/20 £000	2020/21 £000	2019/20 £000	2020/21 £000	2019/20 £000	2020/21 £000
Comprehensive Income and Expenditure Statement						
Cost of Services:						
Service cost comprising:						
Current Service Cost	43,664	43,958	0	0	43,664	43,958
Past Service Cost	1,404	484	0	0	1,404	484
(Gain)/loss from settlements	0	0	0	0	0	0
Financing and Investment Income and Expenditure						
Expenditure:						
Net interest expense	9,836	10,322	812	741	10,648	11,063
Total Post-employment Benefits charged to the Surplus or Deficit on the Provision of Services	54,904	54,764	812	741	55,716	55,505
Other Post-employment Benefits charged to the Comprehensive Income and Expenditure Statement						
Remeasurement of the net defined benefit liability comprising:						
Return on plan assets (excluding the amount included in the net interest expense)	49,640	(193,418)	0	0	49,640	(193,418)
Actuarial gains and losses arising on changes in demographic assumptions	(32,897)	0	(716)	0	(33,613)	0
Actuarial gains and losses arising on changes in financial assumptions	(35,476)	268,851	(358)	2,673	(35,834)	271,524
Other experience and actuarial adjustments	27,827	(15,858)	950	(468)	28,777	(16,326)
Total Post-employment Benefits charged to the Comprehensive Income and Expenditure Statement	9,094	59,575	(124)	2,205	8,970	61,780
Movement in Reserves Statement						
Reversal of net charges made to the Surplus or Deficit on the Provision of Services for post-employment benefits in accordance with the Code	(54,904)	(54,764)	(812)	(741)	(55,716)	(55,505)
Actual amount charged against the General Fund Balance for pensions in the year						
Employers Contributions payable to scheme Retirement benefits payable to pensioners	29,860	20,470	2,320	2,242	29,860	20,470

c) Pension Liabilities and Assets

The underlying assets and liabilities for retirement benefits attributable to the Council at 31 March 2021 are shown in the following table. The liabilities show the underlying commitments that the Council has in the long-run to pay retirement benefits. The total liability of £586.7M (2019/20 £492.1M) has a substantial impact on the net worth of the Council as recorded in the Balance Sheet. However, statutory arrangements for funding the deficit mean that the financial position of the Council remains healthy. The deficit will be

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made good over time by increased contributions by the Council and employees over the remaining working life of employees, at a level assessed by the scheme actuary. The amount included in the balance sheet arising from the authority's obligation in respect of its defined benefit plan is as follows:

	Local Government Pension		Discretionary Benefits		Total	
	2019/20 £000	2020/21 £000	2019/20 £000	2020/21 £000	2019/20 £000	2020/21 £000
Present value of the defined benefit obligation	1,309,231	1,615,353	33,338	34,042	1,342,569	1,649,395
Fair value of plan assets	(850,423)	(1,062,676)	0	0	(850,423)	(1,062,676)
Sub-total	458,808	552,677	33,338	34,042	492,146	586,719
Other movements in the liability (asset)	0	0	0	0	0	0
Net liability arising from defined benefit obligation	458,808	552,677	33,338	34,042	492,146	586,719

d) Assets and Liabilities in Relation to Retirement Benefits

The latest actuarial valuation of liabilities took place at 31 March 2019. This has been updated by independent actuaries to the Hampshire County Council Pension Fund (the Fund) to take account of the requirements of IAS19 in order to assess the liabilities of the Fund as at 31 March 2021.

Movements in liabilities and assets for the year are shown in the following tables:

	Funded Liabilities: Local Government Pension Scheme		Unfunded Liabilities: Discretionary Benefits		Total Funded and Unfunded Liabilities	
	2019/20 £000	2020/21 £000	2019/20 £000	2020/21 £000	2019/20 £000	2020/21 £000
Opening balance at 1 April	1,299,630	1,309,231	34,970	33,338	1,334,600	1,342,569
Current service cost	43,664	43,958	0	0	43,664	43,958
Interest cost	30,887	29,878	812	741	31,699	30,619
Contributions from scheme participants	7,407	8,012	0	0	7,407	8,012
Remeasurement (gains) and losses:						
Actuarial gains/losses arising from changes in demographic assumptions	(32,897)	0	(716)	0	(33,613)	0
Actuarial gains/losses arising from changes in financial assumptions	(35,476)	268,851	(358)	2,673	(35,834)	271,524
Other	27,827	(15,858)	950	(468)	28,777	(16,326)
Past service cost	1,404	484	0	0	1,404	484
Benefits paid	(33,215)	(29,203)	(2,320)	(2,242)	(35,535)	(31,445)
Liabilities extinguished on settlements (where relevant)	0	0	0	0	0	0
Closing balance at 31 March	1,309,231	1,615,353	33,338	34,042	1,342,569	1,649,395

	Local Government Pension Scheme		Discretionary Benefits Arrangements		Total	
	2019/20 £000	2020/21 £000	2019/20 £000	2020/21 £000	2019/20 £000	2020/21 £000
Opening fair value of scheme assets	874,960	850,423	0	0	874,960	850,423
Interest income	21,051	19,556	0	0	21,051	19,556
Remeasurement gain/(loss)	(49,640)	193,418	0	0	(49,640)	193,418
Contributions from employer	29,860	20,470	2,320	2,242	32,180	22,712
Contributions from employees into the scheme	7,407	8,012	0	0	7,407	8,012
Benefits paid	(33,215)	(29,203)	(2,320)	(2,242)	(35,535)	(31,445)
Other	0	0	0	0	0	0
Closing fair value of scheme assets	850,423	1,062,676	0	0	850,423	1,062,676

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e) 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. Both the Local Government Pension Scheme and discretionary benefits liabilities have been estimated by Aon Solutions, an independent firm of actuaries, estimates for the Fund being based on the latest full valuation of the scheme as at 31 March 2019. The principal assumptions used by the independent qualified actuaries in updating the latest valuation of the Fund for IAS19 purposes were:

	Local Government Pension Scheme		Discretionary Benefits	
	2019/20	2020/21	2019/20	2020/21
Mortality assumptions:				
Longevity at 65 for current pensioners:				
Men	23.0	23.1	23.0	23.1
Women	25.5	25.5	25.5	25.5
Longevity at 65 for future pensioners:				
Men	24.7	24.8	-	-
Women	27.2	27.3	-	-
CPI inflation	2.0%	2.7%	2.0%	2.7%
Rate of increase in salaries	3.0%	3.7%	-	-
Rate of increase in pensions	2.0%	2.7%	2.0%	2.7%
Rate for discounting scheme liabilities	2.3%	2.1%	2.3%	2.1%

f) Pension Scheme Assets

The approximate split of assets for the Fund as a whole (based on data supplied by the Fund Administering Authority) is shown in the table below.

	2019/20	2019/20	2019/20	2020/21	2020/21	2020/21
	%	%	%	%	%	%
	Quoted	Unquoted	Total	Quoted	Unquoted	Total
Equities	44.10	8.60	52.70	49.40	7.60	57.00
Property	0.80	6.50	7.30	0.80	5.30	6.10
Government Bonds	21.80	-	21.80	17.30	-	17.30
Corporate Bonds	-	-	-	-	-	-
Cash	2.00	-	2.00	1.40	-	1.40
Other	14.10	2.10	16.20	15.90	2.30	18.20
Total assets	82.80	17.20	100.00	84.80	15.20	100.00

g) Sensitivity analysis

The effect of an increase or decrease in the assumptions used to calculate the net pension liability is set out below.

	Impact on the Defined Benefit Obligation in the Scheme	
	Increase in Assumption £000	Decrease in Assumption £000
Longevity (increase or decrease in 1 year)	58,153	(56,537)
Rate of increase in salaries (increase or decrease by 1%)	3,231	(3,231)
Rate of increase in pensions (increase or decrease by 1%)	30,692	(30,692)
Rates for discounting scheme liabilities (increase or decrease by 1%)	(33,922)	33,922

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Further information can be found in the actuary's valuation report and Hampshire County Council's Pension Fund Annual Report, which are available from the Deputy Chief Executive and Director of Corporate Resources, The Castle, Winchester, Hampshire, SO23 8UB.

35. Contingent Liabilities/ Assets

Contingent Liabilities are potential liabilities which are not currently legally enforceable but may become so on the happening of a future event.

Municipal Mutual Insurance – Scheme of Arrangement

Prior to 1992 the Council was insured by Municipal Mutual Insurance (MMI). MMI ceased accepting new business or to renew general insurance business in September 1992 following which a Scheme of Arrangement (SoA), under Section 425 of the Companies Act 1985, was enacted. The SoA, formally triggered by the Directors of MMI in November 2012, was established as a better alternative to an insolvent liquidation, in the event that MMI could not achieve a solvent run-off. From that date control of MMI passed to the scheme administrator, Ernst & Young LLP, who became responsible for the management of the company's business affairs and assets.

An initial levy of 15% of previously paid claims, less the first £0.050M, was collected by MMI from scheme members in February 2014. In April 2016, following a further review by the scheme administrator, the levy was increased by a further 10% to 25%. To date total sum of £0.347M has been paid to MMI in respect of the levy payments made by Southampton City Council. Under the terms of the SoA, the Council also has to meet 25% of any new insurance claim settlements made by MMI. An annual review of the levy rate is required under the terms of the SoA and this could lead to the rate being further amended in future.

An earmarked Insurance reserve, with a balance of £0.7M (2019/20 £0.35M), is currently available to mitigate the financial pressure created by the MMI levy and any other uninsured losses, which might occur in the future. This figure, which is intended to be both prudent and realistic, is subject to periodic review. The increase in the reserve reflects a recommendation, following an external review of the self-insurance fund, that the MMI reserve increase from 50% to 75% of the amount subject to levy (less the 25% that has been paid already).

As at 31 March 2021, the Council's outstanding potential liability under the SoA stood at £1.390M (2019/20 £1.390M), less the £0.347M payment already made under the scheme.

36. Interest in Companies

The Council reviews annually any interests in Companies and Other Entities for any financial relationships which under the Code's classification would require the Council to produce Group Accounts. In 2020/21 there were no material transactions that required the production of group accounts but it should be noted that the Council does have the following relationship:

PSP Southampton LLP

In 2014 the Council entered into a limited liability partnership with PSP Facilitating Limited and PSP Southampton LLP for a minimum period of 10 years.

The aims and aspirations of the Partnership are as follows:

- Overall to be a facilitating organisation and development partner for the Council enabling it to better realise the efficient management of its assets by unlocking value and reducing liabilities in relation to the Council's operation properties and investment properties;
- To undertake specific regeneration opportunities by entering into land transactions that achieve the success Criteria in a way that maximises the commercial benefits of the Sites;
- To act as a facilitating organisation giving the Council choice as to how it pursues its asset management plans; and

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- To assist in achieving broader social, economic and environmental outcomes.
- A partnership sharing agreement is drawn up for each specific opportunity that developed through the LLP and will be dependent on the nature of the activity to be undertaken.

A review of PSP indicates a joint venture, which would require the arrangement to be accounted for as an associate. The initial investment in the partnership was £1 and the Council's share of the estimated net assets of the company at 31 March 2021 was £0.008M (2019/20 £0.453M), with the Council receiving £0.640M in distributed profits in 2020/21.

Having given due consideration to the qualitative and quantitative aspects of materiality, the Council concludes that the preparation of group accounts is not material to the "true and fair view" of the financial position, financial performance and the cash flows of the authority and to the understanding of the users.

37. Capital and Revenue Grants & Contributions, Receipts in Advance

- a) Capital Grants and Contributions with outstanding conditions are credited to Capital Grants and Contributions Receipts in Advance in accordance with the requirements of the Code.

<u>2019/20</u>		<u>2020/21</u>
£000		£000
(29,245)	Balance Brought Forward	(12,418)
(7,106)	Amounts Received in Year	(20,728)
23,933	Amounts Applied to Finance Capital in year	6,848
<u>(12,418)</u>	Balance Carried forward	<u>(26,298)</u>

- b) Capital Grants and Contributions have been credited to the Comprehensive Income and Expenditure Statement as follows:

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<u>2019/20</u> £000		<u>2020/21</u>	
		£000	£000
	Grants		
	Department for Education		
(5)	Framework Academies	0	
(14,043)	Basic Need Grant	0	
(4,271)	School Condition Allocation	(6,306)	
(1,416)	Schools Devolved Formula Grant	(470)	
(1,263)	Special Provision Allocation	(409)	
(3,605)	Capital Maintenance Grant	0	
0	Priority School Building Programme	(52)	
(2,389)	Other	(71)	
<u>(26,992)</u>			<u>(7,308)</u>
(4,515)	Ministry of Housing, Communities and Local Government		(6,043)
(21)	Heritage Lottery Fund		(9)
(18,360)	Department for Transport		(15,631)
(78)	Department for Culture, Media and Sport		(10)
(221)	Other		(110)
<u>(50,187)</u>			<u>(29,111)</u>
(7,407)	Contributions		(1,926)
<u>(57,594)</u>	Total		<u>(31,037)</u>
(54,495)	Credited to Capital Grants and Contributions CIES		(25,228)
(3,099)	Credited to Cost of Services		(5,809)
<u>(57,594)</u>	Total		<u>(31,037)</u>

- c) The following table shows revenue government grants that have been credited to the Comprehensive Income and Expenditure Statement (CIES) and grants received that have been excluded from the CIES. Grants in respect of COVID-19 are shown separately:

NOTES TO THE CORE FINANCIAL STATEMENTS

<u>2019/20</u>		<u>2020/21</u>
£000		£000
	General Government Grants	
	Revenue Support Grant	(10,964)
(1,895)	Social Care Support Grant	(6,696)
(7,335)	Section 31 Business Rates Grants	(4,915)
10,123	Business Rates Retention Tariff/Top-Up	(4,628)
(4,768)	MHCLG - New Homes Bonus Scheme	(4,098)
(1,171)	Housing Benefit and Council Tax Admin Grant	(1,181)
(1,361)	Other Grants	(1,521)
<u>(6,407)</u>		<u>(34,003)</u>
	<u>COVID-19</u>	
	Section 31 Business Rates Grants	(25,586)
(7,400)	COVID-19 Local Authority Support	(15,532)
	Compensation for Loss of Fees & Charges	(7,374)
	Local Tax Income Guarantee Scheme	(1,127)
	Other Grants	(354)
<u>(7,400)</u>		<u>(49,973)</u>
<u>(13,807)</u>		<u>(83,976)</u>
	Credited to Services	
(126,277)	Dedicated Schools Grant (DSG)	(135,442)
(70,672)	Housing Benefit Grant	(69,916)
(16,520)	Public Health Grant	(17,242)
(9,281)	Additional and Improved Better Care Fund	(10,390)
(9,011)	Pupil Premium	(9,573)
(5,859)	Private Finance Initiative (PFI)	(5,859)
(2,978)	Teachers Pay and Pension Grants	(5,141)
	Homelessness and Rough Sleeping Grants	(1,534)
(1,544)	Universal Infant Free School Meals	(1,533)
(1,109)	Adult Social Care Winter Pressures Grant	
(10,356)	Other Grants	(9,478)
<u>(253,607)</u>		<u>(266,108)</u>
	<u>COVID-19</u>	
	Contain Outbreak Management Fund	(5,916)
	Council Tax Hardship Fund	(2,584)
	Test and Trace Service Grant	(1,571)
	Local Authority Discretionary Grant Funding to Businesses	(1,564)
	Pupil Premium Catch Up Funding	(1,228)
	Adult Social Care Infection Control Discretionary Grants	(951)
	Other Grants	(4,767)
<u>0</u>		<u>(18,581)</u>
<u>(253,607)</u>		<u>(284,689)</u>
	Not included in the Comprehensive Income and Expenditure Statement	
	<u>COVID-19</u>	
	Small Business and Retail, Hospitality and Leisure Grants	(37,550)
	Local Restrictions Support Grants to Businesses	(10,638)
	Closed Business Lockdown Grants	(7,251)
	Adult Social Care Infection Control Grants	(3,205)
	Other Grants	(970)
<u>0</u>		<u>(59,614)</u>

NOTES TO THE CORE FINANCIAL STATEMENTS

The £59.6M of grants not included in the Comprehensive Income and Expenditure Statement are where the Council has acted as an agent of central government in disbursing funding to businesses, social care providers and individuals. In addition, there was £17.6M of business support grants within the Creditors balance as at 31 March 2021 that had been received but not disbursed to businesses as at that date (see Note 20 Creditors).

As part of the 75% Business Rates Retention pilot in 2019/20 the Council received no Revenue Support Grant and incurred a tariff charge of £10.1M to offset the additional business rates income retained.

38. Deferred Liabilities

This balance relates to Local Government Reorganisation debt transferred from Hampshire County Council on 1 April 1997 and the Magistrates Courts, which is being repaid over 50 years at £0.4M per annum.

<u>31 March</u> <u>2020</u> <u>£000</u>		<u>31 March</u> <u>2021</u> <u>£000</u>
14,190	Balance Brought Forward	13,826
(364)	Principal written down	(364)
<u>13,826</u>		<u>13,462</u>

39. Pooled Budgets

Pooled budget arrangements are made in accordance with Section 75 (S75) of the National Health Services Act 2006 which allows partnership arrangements between National Health Service (NHS) bodies, Local Authorities (LA) and other agencies in order to improve and co-ordinate services. These arrangements are accounted for as joint operations.

Better Care Southampton

Southampton City Council (SCC) has entered into pooled budget arrangements with NHS Southampton City Clinical Commissioning Group (CCG) with the aim of focussing services and activities for client groups, allowing the organisations to act in a more cohesive way. The governance and operation of the partnership arrangements are overseen by the Commissioning Partnership Board.

Together the City Council and CCG have identified service areas where closer integrated working and pooled budgets would lead to benefits for the population. These are:

Locality Based Hospital Unit (LBHU) pooled budget: hosted by the City Council; to commission residential, domiciliary care and continuing care services for former residents of the LBHU in Southampton.

Reablement & Rehabilitation (R&R) pooled budget: hosted by the CCG; services commissioned under this scheme include CCG contracts with NHS Providers, Independent Sector Providers and local authority in-house provision (some of which were previously S256 agreements).

NOTES TO THE CORE FINANCIAL STATEMENTS

<u>2019/20</u>					<u>2020/21</u>			
<u>LBHU</u>		<u>R&R</u>			<u>LBHU</u>		<u>R&R</u>	
£000	%	£000	%		£000	%	£000	%
				Better Care Fund				
				Funding - Contributions / Grants				
0		0		Brought Forward	0		0	
(1,274)	49%	(5,159)	31%	Southampton City Council	(1,187)	47%	(4,896)	25%
(1,326)	51%	(11,749)	69%	Southampton Clinical Commissioning Group	(1,336)	53%	(14,980)	75%
(2,600)		(16,908)			(2,523)		(19,876)	
2,600		16,908		Expenditure	2,523		19,876	
0		0		Carried Forward	0		0	

40. Trust and Other Funds

The Council acts as trustee for several legacies left by inhabitants of the City and also as residual trustee for the Wessex Slaughterhouse Board. The funds are not owned by the Council and have not been included in the Council's Balance Sheet. The funds are used in accordance with the aims of the particular charity or trust.

	<u>Income</u>	<u>Expenditure</u>	<u>Assets</u>	<u>Purpose</u>
	£000	£000	£000	
Aldridge Bequest	(3)	0	(235)	Personal enrichment experiences for disadvantaged pupils
Chipperfield Trust	0	0	(169)	Works of art for Southampton City Art Gallery
Miss Orris Bequest	0	2	(44)	Works of art
LC Smith Bequest	0	0	(35)	Merchants Navy's Memorial maintenance help in Holyrood Church
Minor Trust Funds consisting of:				
Ida Bany Bequest	0	0	(13)	Books about America
De Gee	0	0	(1)	Children of the former Hollybrook Children's Home annual treat
Dora Linton	0	0	(3)	Merchants Navy's Memorial maintenance help in Holyrood Church
George Knee Fund	0	0	(4)	Bitterne Park School special annual prizes
Southampton Archives Bequest	(5)	0	(5)	Preserve historical records
Trust Funds Total	(8)	2	(509)	
Wessex Slaughterhouse Board	0	0	(93)	Pensions to former employees
Total	(8)	2	(602)	

OTHER ACCOUNTING STATEMENTS AND ASSOCIATED NOTES

Housing Revenue Account

The Housing Revenue Account (HRA) Income and Expenditure Statement shows the economic cost in the year of providing housing services in accordance with generally accepted accounting practices, rather than the amount to be funded from rents and government grants. Authorities charge rents to cover expenditure in accordance with the legislative framework; this may be different from the accounting cost. The increase or decrease in the year, on the basis upon which rents are raised, is shown in the Movement on the HRA. Although this account is also included within the Core Financial Statements it represents such a significant proportion of the services provided by the Council that it is a requirement that it has a separate account. The account has to be self-financing and there is a legal prohibition on cross subsidising to, or from, the Council Tax payer and between the HRA and General Fund.

Transactions relating to the HRA have been separated into two statements:

- Housing Revenue Account Income and Expenditure Statement
- Statement of Movement on the Housing Revenue Account

HRA Income and Expenditure Statement

<u>2019/20</u>		<u>2020/21</u>
£000	Expenditure	Notes £000
13,853	Repairs and maintenance	17,464
25,260	Supervision and management	27,336
4,774	Rents, rates, taxes and other charges	646
37,980	Depreciation, impairment and revaluation (gains) of non-current assets	(20,468)
74	Debt management costs	81
1,312	Movement in the allowance for bad debts	1 923
83,253	Total Expenditure	25,982
	Income	
(69,497)	Dwellings rent	(70,482)
(1,250)	Non-dwelling rents	(1,212)
(7,392)	Charges for services & facilities	(4,010)
(883)	Contributions towards expenditure	(871)
(79,022)	Total Income	(76,575)
4,231	Net Expenditure or Income of HRA Services as included in the Comprehensive Income and Expenditure Statement	(50,593)
518	HRA services' share of Corporate and Democratic Core	518
4,749	Net Expenditure/ (Income) for HRA Services	(50,075)
	HRA share of the operating income and expenditure included in the Comprehensive Income and Expenditure Statement	
(3,830)	(Gain) or loss on the sale of HRA non-current assets	(1,640)
(28)	Capital Receipts not matched by Disposal of Assets	(58)
(456)	Investment Property Revaluation Movements	(57)
5,189	Interest payable and similar charges	4,779
(22)	Interest and investment income	0
402	Net interest on the net defined benefit liability	1,991
(542)	Capital grants and contributions receivable	(514)
5,462	(Surplus) or Deficit for the Year on HRA Services	(45,574)

OTHER ACCOUNTING STATEMENTS AND ASSOCIATED NOTES

Statement of Movement on the Housing Revenue Account

<u>2019/20</u> £000		<u>2020/21</u> £000	£000
(2,000)	Opening Balance		(2,000)
	Movement in Year		
5,462	(Surplus) or deficit for the year on the HRA Income and Expenditure Account	(45,574)	
(5,462)	Adjustments between accounting basis and funding basis under statute	45,574	
<u>0</u>	Transfer to / (from) reserves		<u>0</u>
<u>(2,000)</u>	Closing HRA Balance		<u>(2,000)</u>

Note to the Statement of Movement on the Housing Revenue Account

<u>2019/20</u> £000		<u>2020/21</u> £000
	Analysis of adjustments between accounting basis and funding basis under statute	
(37,980)	Depreciation, impairment and revaluation (gains) of non-current assets	20,468
3,858	Gain or (loss) on the sale of HRA non-current assets	1,698
456	Impairment and revaluation of investment properties	57
(890)	HRA share of contribution to or from the pension reserve	(5,903)
19,597	Transfer to Major Repairs Reserve	21,553
542	Capital grants and contributions applied	514
8,955	Capital expenditure funded by the HRA	7,187
<u>(5,462)</u>	Net Adjustment	<u>45,574</u>

1. Council House Rents

At 31 March 2021, current tenants arrears as a proportion of dwelling rents collectable net of Rent Rebates was 14.48% (31 March 2020 11.47%). The total arrears were £9.889M (31 March 2020 £8.131M). Rents written off during the year amounted to £0.377M (2019/20 £0.208M). The amount set aside for doubtful debts was £5.520M (31 March 2020 £4.980M). The arrears owed by tenants have increased by £1.76M (21.6%) since 2019/20.

OTHER ACCOUNTING STATEMENTS AND ASSOCIATED NOTES

2. Housing Stock

As at the 31 March 2021, the Council housing stock was made up of the following types of property:

Number of Properties Held		
31 March 2020		31 March 2021
4,900	Houses	4,872
10,927	Flats	10,959
16	Bungalows	16
15,843		15,847

The Balance Sheet value of HRA assets was as follows:

Balance Sheet Value of HRA Assets		
2019/20 £000		2020/21 £000
<i>Property Plant & Equipment</i>		
634,904	Dwellings	681,654
8,586	Other Operational Property	8,347
38,464	Assets Under Construction	43,109
681,954		733,110
<i>Other Property</i>		
5,708	Investment Property	5,765
0	Intangibles	617
424	Surplus Assets	423
6,132		6,805
688,086		739,915

The vacant possession value of Council Dwellings at 1 April 2020 was £1,958M (£1,930M as at 1 April 2019) which is the Council's estimate of the total sum it would receive if the assets were sold on the open market. The Balance Sheet value is calculated on the basis of rents receivable on existing tenancies. These are less than the rent that would be obtainable on the open market and the Balance Sheet is therefore lower than the Vacant Possession Valuation.

The difference between the two shows the economic cost to the Government of providing Council housing at less than open market value. The value is based on stock as at the 31 March 2021.

3. Depreciation and Impairment of Assets

Depreciation charges of land, houses and other property within the HRA are shown in the table below. In 2019/20 there was £1.7M of impairment charges on the dwelling stock during the year which related to the properties purchased at market value and then impaired down to the basis of rents receivable on existing tenancies. There were no impairments in 2020/21.

OTHER ACCOUNTING STATEMENTS AND ASSOCIATED NOTES

<u>2019/20</u> £000	Depreciation	<u>2020/21</u> £000
19,539	Balance at 1 April	19,597
(19,539)	Depreciation written off in year	(19,597)
<u>19,597</u>	Depreciation during year	<u>21,553</u>
<u>19,597</u>	Balance as at 31 March	<u>21,553</u>

4. Capital Expenditure

Capital expenditure and how it was financed is analysed in the following tables:

<u>Capital Spending</u>		
<u>2019/20</u> £000		<u>2020/21</u> £000
25,389	Housing Stock	18,528
15,659	Housing Stock Under Construction	14,818
0	Intangible assets	617
<u>41,048</u>	Total Capital Expenditure	<u>33,963</u>
<u>Capital Expenditure Source of Finance</u>		
£000		£000
7,955	Capital Receipts	7,206
188	Grants	0
19,597	Transfer from Major Repairs Reserves	19,056
354	Contributions	514
8,955	Direct Revenue Funding	7,187
<u>3,999</u>	Unsupported Borrowing	<u>0</u>
<u>41,048</u>	Total Financing	<u>33,963</u>

5. Capital Receipts

Capital Receipts are generated from the sale of fixed assets. The following table shows receipts for the year. In 2005/06 the Government introduced 'capital receipts pooling' whereby local authorities pay the 'reserved part' of HRA capital receipts into a national pool that the Government then distributes to local authorities and housing associations on the basis of need.

In 2012/13, under the Government's 'Reinvigorating the Right to Buy' initiative, the rules changed to allow local authorities to retain receipts that exceed a predetermined set level.

Any additional receipts can be used to fund up to 30% of new build affordable housing projects to replace stock on a one for one basis. Receipts are still subject to updated pooling arrangements that return a predetermined proportion to the Government. In 2020/21 the Council received £1.52M (2019/20 £4.95M) from right to buy sales that can be utilised on new build affordable housing projects.

OTHER ACCOUNTING STATEMENTS AND ASSOCIATED NOTES

<u>2019/20</u>	Sale of Assets	<u>2020/21</u>
£000		£000
10,356	Council Housing	4,368
28	Land, Buildings & Equipment	58
<u>10,384</u>		<u>4,426</u>

OTHER ACCOUNTING STATEMENTS AND ASSOCIATED NOTES

The Collection Fund

This account reflects the statutory requirements for the Council as a billing authority to maintain a separate Collection Fund. It shows the transactions of the billing authority in relation to non-domestic (business) rates and council tax, and illustrates the way in which these have been distributed to preceptors and the General Fund. The Collection Fund Balance Sheet is consolidated within the accounts.

<u>Income and Expenditure for the Year Ended 31 March 2021</u>			
<u>2019/20</u>		<u>2020/21</u>	
£000	Council Tax	Notes	£000
	Income		
(119,561)	Income due from Council Tax Payers		(118,825)
(199)	Transfers (to)/ from the General Fund		
(7)	- Hardship Relief		(2,756)
(206)	- Transitional Relief		7
(119,767)			(2,749)
	Contributions towards Previous Year's (Deficit)/ Surplus Council Tax		
2,051	- Southampton City Council		(251)
244	- Hampshire Police Authority		(33)
90	- Hampshire Fire & Rescue Authority		(11)
2,385			(295)
(117,382)	Total Council Tax Income		(121,869)
	Expenditure		
	Precepts		
99,746	- Southampton City Council Precept		102,535
13,087	- Hampshire Police & Crime Commissioner Precept		13,844
4,398	- Hampshire Fire & Rescue Authority Precept		4,521
117,231		2	120,900
	Impairment of debts		
1,275	- Write offs		1,287
2,984	- Allowance for impairment		(1,770)
4,259			(483)
121,490	Total Council Tax Expenditure		120,417
4,108	Council Tax - Deficit / (Surplus) for the Year	4	(1,452)
(1,479)	Council Tax - Deficit / (Surplus) Brought Forward	4	2,629
2,629	Council Tax Deficit / (Surplus) Carried Forward	4	1,177
	Business Rates		
	Income		
(111,401)	Income Collectable from Business Ratepayers	3	(57,094)
	Contributions towards Previous Year's (Deficit)/ Surplus NDR		
2,014	- Southampton City Council		940
1,053	- Central Government - MHCLG		(441)
31	- Hampshire Fire & Rescue Service		5
3,098			504
(108,303)	Total Business Rates Income		(56,590)
	Expenditure		
1,942	- Payment to MHCLG - Transitional Arrangements		1,554
27,195	- Payment to MHCLG - Business Rate Retention		52,917
80,497	- SCC Business Rates Retention		51,858
1,088	- HFRA Precept		1,058
0	- Interest on Overpayments		0
310	- Costs of Collection		308
111,032			107,695
	Impairment of debts/appeals		
1,484	- Write offs		111
(94)	- Allowance for impairment		(3)
562	- Appeals provision		151
1,952			259
112,984	Total Business Rates Expenditure		107,954
4,681	Business Rates (Surplus) / Deficit For the Year	4	51,364
(5,364)	Business Rates - Deficit / (Surplus) Brought Forward	4	(683)
(683)	Business Rates Deficit / (Surplus) Carried Forward	4	50,681
1,946	Total Collection Fund (Surplus) / Deficit	4	51,858

OTHER ACCOUNTING STATEMENTS AND ASSOCIATED NOTES

1. Introduction

The 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 Non-domestic Rates (NDR) and its distribution to local Government bodies and the Government.

The Council has a statutory requirement to operate a Collection Fund as a separate account to the General Fund. The purpose of the Collection Fund therefore, is to isolate the income and expenditure relating to Council Tax and NDR. The administration costs associated with the collection processes are charged to the General Fund.

Collection Fund surpluses and deficits declared by the billing authority in relation to Council Tax are apportioned to the relevant precepting bodies, normally in the subsequent financial year. To reduce the financial impact in 2021/22 of exceptional losses arising in 2020/21 due to the COVID-19 pandemic, the government made regulations to require the 2020/21 in-year deficit as estimated in January 2021 to be spread over 3 years. Prior year elements remain to be met in full in 2021/22. For Southampton, Council Tax precepting bodies are the Police and Crime Commissioner for Hampshire and the Hampshire Fire & Rescue Authority (Hampshire and Isle of Wight Fire & Rescue Authority from 1 April 2021).

The Retained Business Rates Scheme allows the Council to retain a proportion of the total NDR received. For 2020/21 the Council was part of the standard 50% Business Rates Retention Scheme. The Council share of NDR rates was 49% with the remainder paid to Central Government (50%) and Hampshire Fire & Rescue Authority (1%) (for 2019/20 the Council was in a 75% Business Rates Retention pilot: Southampton City Council 74%, Central Government 25% and HFRA 1%). NDR surpluses and deficits declared by the billing authority in relation to the Collection Fund are apportioned to the relevant precepting bodies, normally in the subsequent financial year in their respective proportions. As with Council Tax, the government made regulations to require the 2020/21 in-year deficit estimated in January 2021 (excluding the element relating to additional reliefs relating to the pandemic being funded from S31 Business Rates Grant) to be spread over 3 years.

2. Council Tax Base

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

The Council Tax base for 2020/21 was 67,215 (2019/20 66,693). The tax base for 2020/21 was calculated as follows:

Council Tax Base			
	<u>Net Chargeable Dwellings</u>	<u>Relevant Proportion</u>	<u>Band D Equivalents</u>
Band A Disabled	36.0	5/9	20.0
Band A	22,017.7	6/9	14,678.5
Band B	27,428.0	7/9	21,332.9
Band C	19,336.5	8/9	17,188.0
Band D	8,172.7	9/9	8,172.7
Band E	2,730.8	11/9	3,337.6
Band F	1,271.7	13/9	1,836.9
Band G	385.0	15/9	641.7
Band H	3.5	18/9	7.0
	<u>81,381.9</u>		<u>67,215.3</u>

OTHER ACCOUNTING STATEMENTS AND ASSOCIATED NOTES

Taking the total Band D equivalents of 67,215 (2019/20 66,693) and multiplying this by the standard Council Tax of £1,846.70 (2019/20 £1,804.69) gives a total estimated income from taxpayers of £124.1M (2019/20 £120.4M). The income due from tax payers, as shown in the accounts, is net of benefits, exemptions and discounts granted. Additional hardship discounts were awarded in 2020/21 to eligible working age council tax payers under the government's Council Tax Hardship Fund scheme.

The number of Band D equivalents is then adjusted for the estimated collection rate for the year, which was 97.4%, giving a net Council Tax Base of 65,468. Multiplying this by the standard Council Tax of £1,846.70 gives the total precepts on the Collection Fund of £120.9M (64,959 times by £1,804.69 - £117.2M 2019/20).

3. Non-Domestic Rates (NDR)

The Business Rates Retention Scheme was introduced from 1 April 2013 whereby Business Rates collected by billing authorities are shared 50:50 between local and central government. Central Government set a baseline level for each authority identifying the expected level of retained business rates and a top up or tariff amount to ensure that all authorities were estimated to receive their baseline funding amount. Tariffs due from authorities, payable to Central Government, are used to finance top-ups to those authorities who were not estimated to achieve their targeted baseline funding. In addition, a 'safety net' figure is calculated at 92.5% of the baseline funding amount which ensures that authorities are protected to this level of Business Rate income.

The Council in 2020/21 estimated NDR income of approximately £105.8M (2019/20 £108.8M), £51.9M (2019/20 £80.5M) retained by the Council, £1.1M (2019/20 £1.1M) payable to Hampshire Fire & Rescue Authority) and £52.9M payable to Central Government (2018/19 £27.2M). This estimate was made prior to the government announcing significant additional rate reliefs to support particular business sectors during the pandemic. For Southampton £50.2M of these additional reliefs were awarded in 2020/21. The Rateable Value on 31 March 2021 was £266.3M (2019/20 £271.3M) and the Business Rate Multiplier for the year 49.9p (2019/20 49.1p) in the £, giving gross rates before reliefs of £132.9M (2019/20 £133.2M).

4. Collection Fund Balance

The total Collection Fund deficit carried forward for the year is £51.9M (2019/20 £1.9M surplus). An analysis of the balance showing the in-year (surplus)/deficit and cumulative position is provided in the following table:

	Analysis of Collection Fund Balance					
	In Year			Cumulative		
	Council Tax (Surplus)/ Deficit	Business Rates (Surplus)/ Deficit	Total	Council Tax (Surplus)/ Deficit	Business Rates (Surplus)/ Deficit	Total
£000	£000	£000	£000	£000	£000	
Central Government		24,989	24,989		25,385	25,385
Southampton City Council	(1,231)	25,861	24,630	1,000	24,789	25,789
Hampshire Fire & Rescue Service	(169)	514	345	131	507	638
Hampshire Police Authority	(52)		(52)	46		46
Balance as at 31 March	(1,452)	51,364	49,912	1,177	50,681	51,858

GLOSSARY

1. Accruals

The concept that income and expenditure is recognised as it is earned or incurred; not as money is received or paid.

2. Budget

The Council's aims and policies set out in financial terms against which performance is monitored. Both revenue and capital budgets are prepared.

3. Capital Adjustment Account (CAA)

The CAA absorbs the timing differences arising from the different arrangements for accounting for the consumption of non-current assets and for financing the acquisition, construction or enhancement of those assets under statutory provisions.

4. Capital Expenditure

Expenditure on the acquisition of a fixed asset or expenditure, which enhances and not merely maintains the value or increases the life of an existing fixed asset.

5. Capital Receipts

The proceeds from the sale of capital assets.

6. Community Assets

Assets that the Council intends to hold in perpetuity and that may have restrictions on their disposal. Examples of community assets are parks, open spaces, and allotments.

7. Contingency

A situation which exists at the balance sheet date, where the outcome will be confirmed only on the occurrence or non-occurrence of one or more uncertain future events.

8. Council Tax

A local tax levied by a local authority on its citizens.

9. Creditor

Money owed by the Council to others for goods or services that have been supplied in the accounting period but not paid for.

10. Debtor

Money owed to the Council for goods or services we have supplied to others that they have received but have not paid for by the end of the accounting period.

11. Depreciation

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

12. Effective Interest Rate (EIR)

The effective interest rate is the true rate of interest earned. It could also be referred to as the market interest rate, the yield to maturity, the discount rate, the internal rate of return, the annual percentage rate (APR), and the targeted or required interest rate.

13. Fair Value

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

GLOSSARY

14. Financial Assets

A right to future economic benefits controlled by the Council that is represented by cash or other instruments or a contractual right to receive cash or another financial asset.

15. Finance Lease

A lease that transfers substantially all of the risks and rewards of ownership of a fixed asset to the lessee. Such a transfer of risks and rewards may be presumed to occur if, at the inception of the lease, the present value of the minimum lease payments, including any initial payment, amounts to substantially all of the fair value of the leased asset.

16. Financial Instrument

Any contract that gives rise to a financial asset of one entity and a financial liability, or equity instrument, of another entity.

17. Financial Liability

An obligation to transfer economic benefits controlled by the Council and can be represented by a contractual obligation to deliver cash or financial assets or an obligation to exchange financial assets and liabilities with another entity that are potentially unfavourable to the Council.

18. Financial Reporting Standard (FRS)

Statements issued by the Accounting Standards Board (ASB) specifying the treatment and disclosure of certain events and transactions in the preparation and publication of accounting statements.

19. General Fund

The division of the Council's accounts covering services paid for by the precept on the Collection Fund for council tax and its share of business rates.

20. Government Grants

Government assistance whether in the form of cash or transfers of assets in return for compliance with certain conditions relating to the activities of the Council.

21. Heritage Assets

Heritage Assets are those assets that are held and maintained by an entity principally for their contribution to knowledge and culture. Heritage assets can have historical, artistic, scientific, geophysical or environmental qualities.

22. Housing Revenue Account

The division of the Council's accounts that covers services relating to the provision of Council housing.

23. Impairment

A reduction in the value of a fixed asset, as shown in the balance sheet, to reflect its true value.

24. Infrastructure Assets

Examples of infrastructure assets are highways, bridges and footpaths.

25. International Financial Reporting Standards (IFRS's)

A set of international accounting standards stating how particular types of transactions and other events should be reported in financial statements. IFRS's are issued by the International Accounting Standards Board (IASB).

GLOSSARY

26. Long Term Investments

An investment that is intended to be held for use on a continuing basis in the activities of the Council.

27. Materiality

This is one of the main accounting concepts. It ensures that the Financial Statements include all the transactions that, if omitted, misstated or obscured, would lead to a significant distortion of the financial position at the end of the accounting period.

28. Minimum Revenue Provision (MRP)

An annual provision that the Council is statutorily required to set aside and charge to the Revenue Account for the repayment of debt associated with expenditure incurred on capital assets.

29. Money Market Funds

Pooled funds which invest in a range of short term assets (MMF) providing high credit quality and high liquidity.

30. Non Domestic Rates Retention

Business rate levied on companies, firms etc, collected by local authorities and paid in specified shares to Central Government, Southampton City Council and Hampshire Fire & Rescue Authority.

31. Net Book Value

The amount at which Property Plant and Equipment are included in the balance sheet, i.e. their historical cost or current value less the cumulative amounts provided for depreciation.

32. Net Expenditure

Total expenditure for a service less directly related income.

33. Net Realisable Value

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

34. Non-Operational Assets

Property Plant and Equipment held by the Council but not directly occupied, used or consumed in the delivery of services. Examples of non-operational assets are investment properties and assets that are surplus to requirements, pending sale or redevelopment.

35. Operating Leases

A lease other than a finance lease (see 15).

36. Operational Assets

Property Plant and Equipment held and occupied, used or consumed by the Council in the direct delivery of those services for which it has either a statutory or discretionary responsibility.

37. Post Balance Sheet Events

Those events, both favourable and unfavourable, which occur between the balance sheet date and the date on which the Statement of Accounts are signed by the responsible financial officer.

38. Private Finance Initiative (PFI)

PFI and similar contracts are agreements to receive services, where the responsibility for making available the property, plant and equipment needed to provide the services passes to the PFI contractor. As the Council is deemed to control the services that are provided under its PFI schemes, and as ownership of the property, plant and equipment will pass to the Council at the

GLOSSARY

end of the contracts for no additional charge, the Council carries the assets used under the contracts on its Balance Sheet as part of Property, Plant and Equipment.

39. Property, Plant and Equipment

Tangible assets that benefit the Council and the services it provides for a period of more than one year.

40. Public Works Loans Board (PWLB)

The PWLB is a statutory body operating within the United Kingdom Debt Management Office, an Executive Agency of HM Treasury. The PWLB's function is to lend money from the National Loans Fund to local authorities and other prescribed bodies, and to collect the repayments.

41. Revaluation Reserve

The Revaluation Reserve is an unusable reserve that contains the gains made by the Council arising from increases in the value of its Property, Plant and Equipment.

42. Revenue Expenditure Funded from Capital under Statute (REFCUS)

Expenditure which may properly be deferred, but which does not result in a tangible asset. An example of revenue expenditure funded from capital under statute is expenditure on improvement grants. These were previously referred to as deferred charges.

43. Revenue Expenditure / Income

The cost or income associated with the day-to-day running of the services and financing costs.

44. Stock

Comprise the following categories:

- Goods or other assets purchased for resale;
- Consumable stores;
- Raw materials and components purchased for incorporation into products for sale;
- Products and services in intermediate stages of completion;
- Long-term contract balances;
- Finished goods.

45. Treasury Management

The management of the Council's debt and investment of surplus funds.

46. Useful Life

The period over which the Council will derive benefits from the use of a fixed asset.

SCOPE OF RESPONSIBILITY

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

In discharging this overall responsibility, the council is responsible for putting in place proper arrangements for the governance of its affairs, and facilitating the effective exercise of its functions, which includes arrangements for the management of risk.

The council has approved and adopted a Code of Corporate Governance that is consistent with the principles of the ‘Delivering Good Governance in Local Government: Framework’ (CIPFA/Solace, 2016). A copy of the code is on our website at:

<http://www.southampton.gov.uk/council-democracy/corp-governance/>

or can be obtained from the:

Service Director – Legal and Business Operations
Southampton City Council,
Civic Centre,
Southampton,
SO14 7LY

This statement explains how the council has complied with the or local code and also meets the requirements of the Accounts and Audit (England) Regulations 2015, Regulation 6(1), which requires all relevant bodies to prepare an annual governance statement.

THE PURPOSE OF THE GOVERNANCE FRAMEWORK

The governance framework comprises the systems and processes, cultures and values by which the council is directed and controlled and its activities through which it accounts to, engages with and leads its communities. To demonstrate compliance with the principles of good corporate governance, the council must ensure that it does the right things, in the right way, for the right people, in a timely, inclusive, open, honest and accountable manner.

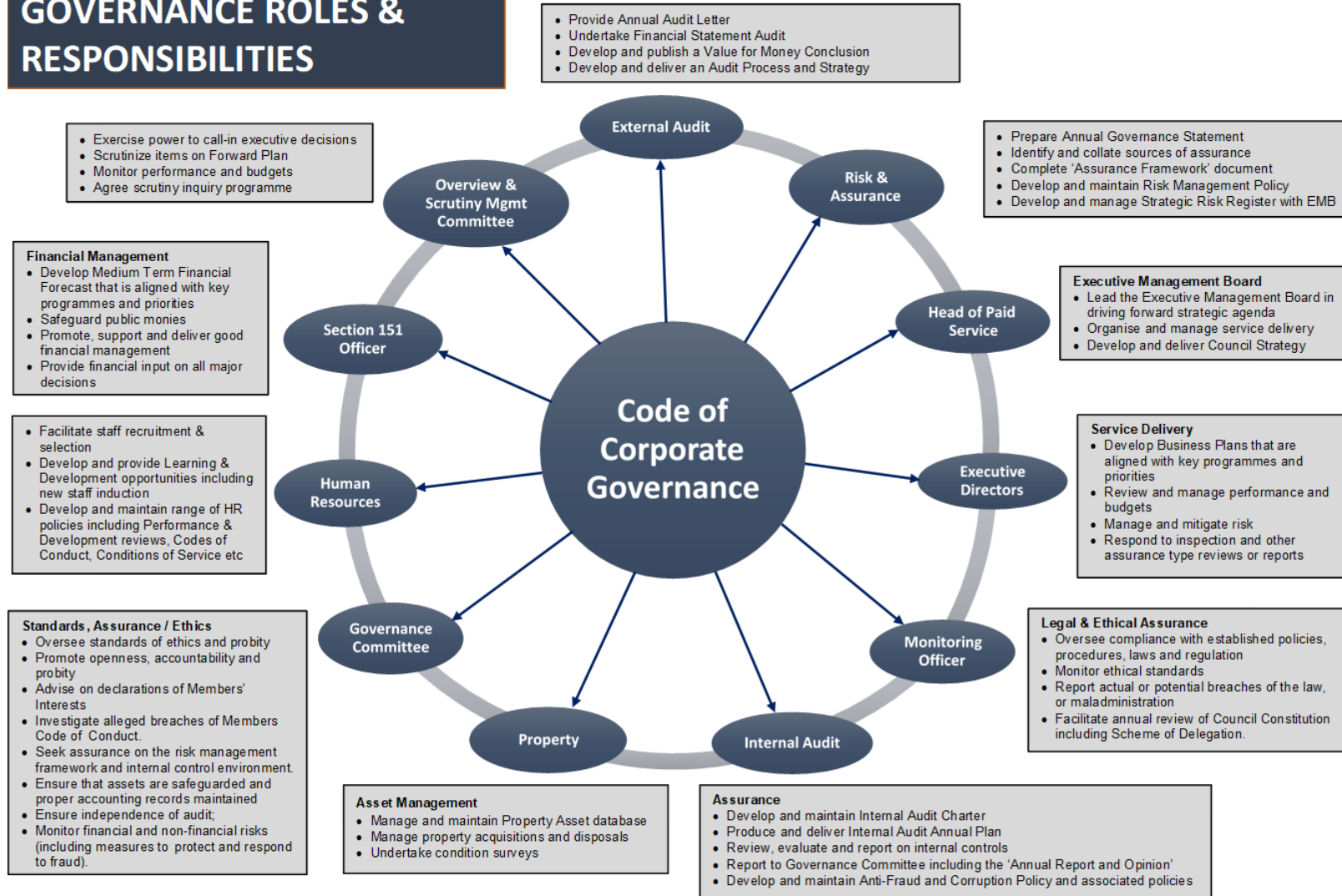
Good governance is crucial as it leads to good management, good performance, good stewardship of public money, good public engagement and ultimately good outcomes for citizens and service users. Further, good governance enables an authority to pursue its aims effectively whilst controlling and managing risk.

The system of internal control is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the council’s policies, aims and objectives, to evaluate the likelihood and potential impact of those risks being realised, and to manage them efficiently, effectively and economically.

The governance framework has been in place at the council for the year ended 31st March 2021 and up to the date of approval of the statement of accounts.

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GOVERNANCE ROLES & RESPONSIBILITIES



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The Governance Framework

The fundamental function of good governance is to ensure that the council achieves its intended outcomes while acting in the public interest at all times. The following core, high level, principles in Sections A to G reflect the 7 core principles of good governance in the public sector are derived from the 'Delivering Good Governance in Local Government: Framework (CIPFA/Solace, 2016)'.

Impact of the Covid-19 Pandemic on Governance

NOTE: *As per the 2019-20 AGS, the 2020-21 AGS is also expected to include a section that summarises the 'impact of the Covid-19 Pandemic on Governance'. It is a requirement that the AGS is current at the time it is published noting that for 2020-21 the date for publication of audited accounts is 30th September 2021. By default, this section, which will be informed by the following CIPFA guidance/prompts, is not therefore able to be completed until later in the year.*

"An organisation's governance arrangements are likely to have been impacted by Covid-19. The list does not include all the sub-principles in the Framework but attempts to highlight key challenges:

- *Reduced capacity*
- *Competing priorities*
- *Constraints resulting from home / remote working*
- *Ensuring covid-19 restrictions are maintained e.g. social distancing*
- *Financial constraints*

As a result, gaps might have been created in an organisation's normal governance arrangements. Some changes may not be significant, especially where it has proved possible to adapt.

- *Are we aware of how Covid-19 has impacted our governance arrangements and our ability to fulfil the principles of good governance?*
- *What adaptations have been made? Are these effective?*
- *Providing local leadership on compliance with Covid regulations to maintain public trust and respect for the rule of law*
- *Determining the wider public interest associated with balancing conflicting interests between achieving the various economic, social and environmental benefits. For example, supporting local public health and the local economy are both and challenging objectives that will have been difficult to balance. Medium and long term resource crucial planning aimed at developing a sustainable funding strategy. This is likely to have been particularly challenging this year.*
- *Ensuring continued effectiveness in the use of assets. Vision and strategy for asset management might have been affected by changed patterns of working impact on office accommodation. Also, town centre and commercial property potentially affected.*
- *Ensuring arrangements are in place to maintain the health and wellbeing of the workforce and support individuals in maintaining their own physical and mental wellbeing. This is likely to have taken greater prominence this year.*
- *Ensuring the adequacy of financial controls – especially where new services have been introduced or significantly changed in the year*
- *Gaining assurance on risk associated with service delivery by partners. This area might have been affected by impact of the pandemic on partners etc.*
- *Ensuring the effective delivery of local elections."*

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A. Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law.

The council's Constitution sets out how the council operates, how decisions are made and the procedures which are followed to ensure that these are efficient, transparent and accountable to local people. Some of these processes are required by the law, while others are a matter for the council to choose. The Constitution is divided into 15 Articles which set out the basic rules governing the council's business. The Constitution is published on the council's website at:

<http://www.southampton.gov.uk/council-democracy/meetings/council-constitution.aspx>

The Constitution includes both Officers' and Members' Codes of Conduct which set out the expected behaviour and standards to be adhered to. In addition, there is a Code of Conduct for Employees which states the standards of conduct and behaviour expected of them in the course of their employment and where this extends into activities and interests outside of work.

The Service Director: Legal and Business Operations is the Monitoring Officer and has responsibility for ensuring compliance with established policies, procedures, laws and regulation, and reporting any actual or potential breaches of the law, or maladministration, to full Council and/or to Cabinet.

A 'Whistleblowing Policy' (Duty to Act) is in place and published on the council's website. Whistleblowing is a way for employees to raise reasonably and honestly held concerns they may have about serious matters that could put the council and/or the wider public at risk. Whistleblowing usually involves bringing forward concerns that it is in the public interest to investigate and resolve. Examples are fraud, the giving or taking of bribes, financial malpractice, or practices that might endanger individuals or the environment.

As part of the commitment to safeguard public funds there is an 'Anti-Fraud, Bribery and Corruption Policy' that applies to any actual or suspected internal or external fraud, bribery, corruption and dishonest dealing that involve the council and or its Members and staff. It also applies to contractors, suppliers, partners, agents, intermediaries and service users. The council also has in place an 'Anti-Money Laundering' policy which sets out the expectations and responsibilities of both officers and Members in respect of preventing criminal activity through money laundering. This policy details the procedures that must be followed (for example reporting of suspicions of money laundering activity) to enable the council and staff to comply with their legal obligations.

Investigations and special reviews into suspected fraud or irregularities are overseen by an 'Investigation Steering Panel', comprising the Monitoring Officer, Chief Internal Auditor, Section 151 Officer (Chief Finance Officer) and the Service Director - Human Resources & Organisational Development.

The council takes any complaint that it receives seriously and has processes to ensure that every complaint is dealt with fairly and investigated and responded to as quickly as possible. The council welcomes hearing customers' comments, compliments, and complaints to better understand how they view our services and to use these valuable opportunities to learn and improve for the future. There is a Corporate Services and Adult Social Care 'Customer Comments, Compliments and Complaints Policy' published on the council's website which explains how to make a complaint and how it will be dealt with. There is also a separate 'Children's Services Complaint Procedure' which is also published on the council's website. Complaints relating to Members are dealt with under the Members' Code of Conduct.

The council's 'Social Value and Green City Procurement Policy' reflects a commitment to proactively work to ensure that all goods, works and services that it procures are sourced ethically and sustainably; both in the way the Council procures and in terms of the standards that the Council expects its suppliers, service providers and contractors to meet.

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B. Ensuring openness and comprehensive stakeholder engagement

The council supports the principle that people should have the opportunity to voice their opinions on issues that affect them. The views of customers are at the heart of the council's service delivery arrangements and are actively sought. The council's website includes a 'Have your say' section which provides information to residents, customers and other stakeholders on how they can 'have their say' on various issues using:

- Consultations
- Surveys and research
- E-Petitions
- Comments, compliments and complaints
- Have your say at meetings

Where appropriate, public consultation is used to seek the views of residents and stakeholders. For example, A public engagement exercise was undertaken with residents and stakeholders on the draft budget proposals between 16th December 2020 and 19th January 2021. The aim of this engagement exercise was to:

- Communicate clearly to residents and stakeholders the budget proposals for 2021/22;
- Ensure any resident, business or stakeholder who wished to comment on the proposals had the opportunity to do so, enabling them to raise any impacts the proposals may have; and
- Allow participants to propose alternative suggestions for consideration which they feel could achieve the objectives in a different way.

Southampton City Council, in conjunction with other local public service providers, also undertakes a 'City Survey' every two years to collect resident views on a range of topics. This provides an opportunity to get views of a representative sample of Southampton residents on key / priority issues and to gain better understanding of perceptions on how we are doing as a council and as a city. The surveys also include a set of common Local Government Association questions which allows Southampton to be benchmarked against the national average and for trends to be tracked over time. Full results are available on the Southampton Data Observatory: <https://data.southampton.gov.uk/> The latest survey ran between October 2020 and December 2020 and included questions on:

- Opinion on the local area
- Opinion on Council and other public services
- Communications and Digital exclusion
- Employment
- City of Culture bid
- Transport
- Wellbeing

In addition, four 'Covid-19 Residents Surveys' were undertaken in 2020 and were intended to provide both the council and other agencies across the city with an understanding of how residents were interpreting national guidance, how the pandemic was impacting residents' lives, and concerns that residents may have had during this time. This feedback was used to support the local response and to aid recovery efforts across the city.

The council has in place a 'People's Panel' which now has a membership of over 3,200 people and is open to anyone over the age of 18 to join. This Panel comprises a group of residents who take part in surveys and other opportunities to express their views on council services, health services and living in the city. Run by Southampton City Council and with support from the University of Southampton, the People's Panel has been active since 2015 and the results from surveys have been used to inform a number of decisions and service changes.

In order to understand the demographic makeup of People's Panel, members are asked questions like age, gender, ethnicity and this information may be used to target engagement activities to certain groups in the city. On all wider engagement and consultation exercises, the demographic breakdown of respondents is reviewed to help ensure they are representative of Southampton residents and to identify where further targeted communications may be appropriate.

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There is a strong focus on youth participation in the city with 'Youth Forum Southampton' providing opportunity for young people to influence how services are delivered, highlight issues that need to be reviewed and to help shape public services for the community. The 'Southampton Speak Up! - Children and Young People's Participation Strategy 2016-2020' is also intended to provide children and young people with 'a voice and a choice' explains how young people can get involved to help make the city a better place. Elections have also been held for Southampton's own Member of Youth Parliament who is now in place.

C. Defining outcomes in terms of sustainable economic, social, and environmental benefits

The Southampton City Council Corporate Plan 2020-2025 ('Corporate Plan') sets out how the council will achieve its vision of Southampton as a city of opportunity. The Corporate Plan is being delivered through detailed business plans, delivering on key initiatives and working positively with partners. Underpinning this is work to support the council as a sustainable organisation, increasing commercial opportunities to generate income, and ensuring that the council is both solid in its financial position and flexible enough to identify important trends and respond to a changing environment. With the goals of creating a greener, fairer, healthier place, and in an environment of continuous change. The Corporate Plan has five key themes to address the opportunities and challenges the city faces over the next five years and beyond.



Progress in respect the commitments, initiatives and priorities is monitored, reviewed and updated on a six-monthly basis. The updated document is reviewed by both the council's Executive Management Board and Cabinet and is then published on the council's website. In addition, progress against the major Programmes and Projects within the Corporate Plan is also presented to the council's Governance Committee every 6 months.

To achieve the council's priority outcomes employees are expected to demonstrate the council's organisational values. These reflect the importance that the council places on behaviours, and the way that employees engage with customers, partners and colleagues:

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There are a number of key strategies, policies and plans which impact on both the direction of the council and the day to day operations as follows:



There are also other key strategies that reflect the vision and ambition of both the city and wider region including the Southampton City Strategy (2015-2025) which is a partnership strategy that sets out the vision for the whole city. Southampton Connect is responsible for the delivery of the Southampton City Strategy with the vision that Southampton is a city of opportunity where everyone thrives. Southampton Connect is an independent partnership which brings together senior city representatives seeking to address the key challenges and opportunities for Southampton and working with the city's key partners to improve the outcomes of the people of Southampton.

At a sub-regional level delivery of key outcomes and priorities are achieved through the Partnership for South Hampshire ('PFSH'), the Solent Local Enterprise Partnership ('LEP') and Solent Transport.

PFSH is a collaborative partnership working arrangement between the twelve South Hampshire local authorities, Hampshire County Council plus the Southampton and Portsmouth Unitary Councils. PFSH is focused on supporting economic growth, delivery of housing, the infrastructure to achieve this development, in a sustainable manner to maintain and enhance the quality of the environment. PFSH engages with a range of other local organisations, stakeholders and Government to achieve these aims.

The Solent LEP is a locally-owned partnership between businesses and local authorities and plays a central role in determining local economic priorities and undertaking activities to drive economic growth

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and the creation of local jobs. The Board of the Solent LEP is democratically elected by its members, who are drawn from the area's key business, education and local authorities. On a wider basis, working with Local Authority partners, has seen the creation of the Solent Leaders Forum, further strengthening joint working and collaboration across the area. In 2019 a new Solent LEP geography was created now extending further westwards to encompass the whole of the New Forest. In 2021 the Solent LEP will develop a new future facing strategy called Solent 2050.

Solent Transport is a sub-regional transport partnership composed of: Portsmouth, Southampton, the Isle of Wight and Hampshire County Council. It was created in 2007 as Transport for South Hampshire and was rebranded to Solent Transport in 2014. Solent Transport and its partner bodies are important members of Transport for the South East (TFSE). The partnership creates a platform for joint working, standards and partnership leading to innovation, excellence and parity in transport provision across the Solent Transport area. The partnership works strategically with private industry, key stakeholders and other agencies to deliver transport infrastructure, networks and systems crucial to keep the region moving and generate economic growth, wealth and sustainability.

D. Determining the interventions necessary to optimise the achievement of the intended outcomes

The council has in place a robust decision-making process that clearly sets out the actions and accountability in terms of who, when and how decisions are taken and where responsibility for decisions making rests. All decision reports are required to be submitted using a standard report template which identifies the 'Decision Maker', the decision or action required, why the report is recommended, alternative options considered together with a 'Detail' (including Consultation carried out) section. The template also includes separate sections detailing any Financial/Resource, Legal, Risk and Policy implications. Where appropriate these comment on how proposals will be paid for, the statutory power to undertake the action and/or relevant legislation that affect the proposals, any significant risks associated with the decision that need to be considered and that confirmation that the proposals are in accordance with the council's approved Policy Framework. Report authors are required to consult with relevant departments as part of the preparation and development of a report. This will always include Democratic Support, Corporate Legal and Finance but may also include Property, IT etc if the proposals within the draft report are relevant to these areas. All decision reports are signed off by the relevant Executive Director and Cabinet Member.

The council's Overview and Scrutiny Management Committee ("OSMC") manages the council's overview and scrutiny process which includes scrutinising items on the council's Forward Plan and exercising the power to call-in executive decisions, agreeing the scrutiny inquiry programme and monitoring performance and budgets, Scrutiny provides the role of the "critical friend" to the decision makers and assists in policy development, drives improvement in public services and enables the voice of the public to be heard. There are a number of Scrutiny Panels that support the work of the Executive and the council as a whole. The Scrutiny Inquiry Panel carries out a work programme of scrutiny inquiries approved by the OSMC. In addition, the Health Overview and Scrutiny Panel undertakes the statutory scrutiny of health and adult social care agencies in Southampton, and the Children and Families Scrutiny Panel scrutinises services for children and families in the city, including education.

Due to Covid-19 all scrutiny meetings were held remotely with members of the public able to view meetings live via the Council's website. To enable public engagement interested residents or groups were invited to submit questions in writing in advance of the committee or panel meeting. At the discretion of the Chair, members of the public or stakeholder groups who have expressed an interest in contributing on a specific agenda item were invited to attend the virtual scrutiny meeting to contribute to the discussion. In addition, scrutiny inquiries continue to consider written evidence and members of the public, community groups, or other key stakeholders can write in to bring evidence to the attention of the Inquiry Panel members.

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E. Developing the entity's capacity, including the capability of its leadership and the individuals within it

The council has in place a Workforce Strategy which is intended to enable the council to develop its current and future workforce with the right skills, competencies and behaviours to deliver services. The Workforce Strategy sets out a high-level vision, priorities and outcomes to develop and nurture a motivated and effective workforce who will deliver the council's priorities. The priority outcomes delivered by the Workforce Strategy will be:

- Recognised as an employer of choice;
- A high performing workforce;
- Good management across the council;
- Evidenced based decision making, planning and delivery;
- A highly motivated and engaged workforce;
- Staff empowered to make decisions;
- An effective Member Development programme for councillors; and
- Demonstrable valuing of diversity and equality.

The Workforce Strategy is a key document that sits alongside the both the Medium-Term Financial Forecast, the Wellbeing Strategy and the Customer Strategy and takes account of challenges in relation to the overall council budget. It is used to inform resource allocation decisions, organisational development and business planning, drive positive change and the delivery of agreed outcomes.

The council also has in place a Workplace equalities policy which reflects the council's long-standing commitment towards the elimination of discrimination and the achievement of equality of outcomes for residents, communities and staff as reflected in our published priorities and organisational values. The policy reaffirms the council's commitment to eliminate discrimination in all that we do and help achieve equality of opportunity and outcomes for our staff and the communities it serves. New initiatives under this broad umbrella include a specific focus for 2021 onwards on Diversity and Inclusion with priorities set by staff workshops.

F. Managing risk and performance through robust internal control and strong public financial management

The council's Governance Committee has responsibility to provide independent assurance on the adequacy of the risk management framework and the internal control and reporting environment and the integrity of the financial reporting and annual governance statement process. The Governance Committee undertakes the core functions of an audit committee and operates in accordance with CIPFA guidance. It receives a range of periodic reports relating to both the internal control environment and financial management including receiving the draft Statement of Accounts. The Committee receives an annual Risk Management Report that summarises the framework and arrangements in place to manage risk and is intended to provide the Committee with both information and assurance regarding how risk is managed. This includes reference to the council's 'Risk Management Policy' that sets out the framework, arrangements and responsibilities in respect of how risks relating to the delivery of key outcomes and priorities, are identified and managed. This policy is intended to support the application of robust risk management principles and practices across all service areas. There is also a range of associated guidance documents, templates and other tools to support officers in identifying and managing risk.

A key element of the council's risk management framework is the council's Strategic Risk Register which is developed in consultation with Executive Directors. This document reflects the key strategic risks that have been identified as needing to be managed in order to support the delivery of the council's key initiatives and priorities. The Strategic Risk Register is updated and reviewed by the Executive Management Team on a quarterly basis and identifies how the individual risks are being managed together with an assessment of the effectiveness of the arrangements in place. An 'exceptions report' identifies any gaps or weaknesses with a requirement that further mitigating actions be developed and actioned as necessary.

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Risk management forms an important and integral part of the council's project management methodology with risk registers having been used extensively in respect of managing and supporting the council's response to Covid-19 and including supporting information decision taking.

Effective financial management is key to managing the delivery of a vast range of council services either directly or through/with others and ultimately improving the quality of life for residents. The council's Medium Term Financial Forecast ('MTFF') 2021/22 – 2024/25 provides a strategic financial framework and a forward looking approach to achieve long term financial sustainability for the council. It is central to the delivery of the council's priorities in an affordable and sustainable way over the medium term. It also aids robust and methodical planning as it forecasts the council's financial position taking into account known pressures, major issues affecting the council's finances, including external economic influences as well as local priorities and factors.

The MTFF helps the council to respond, in a considered manner, to pressures and changes as a result of internal and external influences. This is particularly important during a period when the council faces considerable pressures and challenges, such as those relating to the Covid-19 pandemic. The MTFF recognises the key role that financial resources play in the future delivery of priorities and in enabling the effective planning, management and delivery of services. The approach concentrates on the principles that will provide a strong direction for the medium term. The key objectives of the MTFF are to:

- Provide financial parameters within which budget and service planning should take place;
- Ensure that the Council sets a balanced and sustainable budget;
- Focus and re-focus the allocation of resources so that, over time, priority areas receive additional resources. Ensuring services are defined on the basis of clear alignment between priority and affordability;
- Ensure that the Council manages and monitors its financial resources effectively so that spending commitments do not exceed resources available in each service area;
- Plan the level of fees, charges and taxation in line with levels that the Council regard as being necessary, acceptable and affordable to meet the Council's aims, objectives, policies and priorities whilst gradually reducing the Council's reliance on Central Government funding; and
- Ensure that the Council's long term financial health and viability remain sound.

The MTFF enables integrated service and financial planning over the medium term, using a business planning approach. The resulting Medium Term Financial Model provides the framework within which decisions relating to future service provision can be made.

The Chartered Institute of Public Finance and Accountancy ("CIPFA") has published a new Financial Management Code for authorities to adhere to. The CIPFA Financial Management Code 2019 (FM Code) is designed to support good practice in financial management and to assist local authorities in demonstrating their financial sustainability. The FM Code sets out the standards of financial management for local authorities, based on broad principles. It does not prescribe the financial management processes that local authorities should adopt but requires each authority to demonstrate that its processes satisfy the principles of good financial management. 2020/21 was the 'shadow' year for the implementation of the FM Code with the first year of compliance being 2021/22. Future budget updates to both Cabinet and Council will indicate how the processes adopted by the council ensure compliance with the standards set out in the Code.

As part its preparations for embedding enhanced standards of financial management the council undertook a self-assessment against the new FM Code in order to identify any significant gaps or areas for development. The conclusion of the self-assessment was that the council broadly operates within the expected principles, however a few areas to further strengthen our processes were identified such as ensuring the senior management team (the Executive Management Board) were up to date with the work on financial resilience and how Southampton compares with other council's and that the Financial Procedure Rules were fully up to date. The necessary areas for improvement will also be tabled at the Executive Management Board for discussion and the plan monitored for its implementation.

The council's financial management arrangements conform to the governance requirements of the CIPFA 'Statement on the Role of the Chief Financial Officer ("CFO") in Local Government. The CFO (the

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Executive Director for Finance and Commercialisation and Section 151 Officer) is professionally qualified and is a key member of the Executive Management Team and reports directly to the Chief Executive. The CFO is actively involved in, and able to bring influence to bear on, all material business decisions to ensure immediate and longer term implications, opportunities and risks are fully considered, and alignment with the council's overall financial strategy. The CFO is also responsible for leading, directing and ensuring that the finance function is fit for purpose.

The council has in place 'Business Plans' at service level that are aligned with the council's priorities and outcomes as set out in the Corporate Plan. The business plans provide an overview of the services being delivered together with the outcomes (and outputs) that are looking to be achieved. The council undertakes an annual business planning and budgeting process with all Service Business plans required to be reviewed to ensure that they reflect changing circumstances, methods of service provision, impact on the budget and the needs of customers. An important part of the process is the 'sustainability/challenge' sessions that focus, in particular, on current and future service costs including opportunities for income growth.

All significant commercial partnership working arrangements also have a range of performance indicators which are used to monitor, verify and manage service performance. The council is committed to achieving best value from its contracts and ensuring that goods, services and works are procured, and contract managed in the most efficient and effective way throughout the lifecycle of the contract. Regular review meetings are held with key suppliers in order to ensure that contracts remain fit for purpose. Contract Management Teams in the Supplier Management Team and the Integrated Commissioning Unit support the council in managing contracts throughout the lifecycle of the contract and provide senior management interfaces between the council and our partnership service providers.

G. Implementing good practices in transparency, reporting, and audit, to deliver effective accountability

The council is committed to openness and transparency and publishing as much council data as it can in order to increase accountability. The 'Council Data' page on the council's website allows the public to access a wide range of information and data that is published in accordance with the Local Government Transparency Code (2015).

The council's Constitution sets out how decisions are made and makes specific reference to decision making by Full Council, by the Executive (Cabinet), by Overview and Scrutiny Committees, other committees and sub-committees established by the council and by council bodies acting as tribunals. The Constitution also includes an Officer Scheme of Delegation which sets out the powers and functions that are delegated to named Council Officers. The compilation of a Register of Delegated Powers is a statutory requirement and is maintained by the Service Director: Legal & Business Operations.

The council produces a Forward Plan of all Key Decisions which are proposed to be taken within the next four months (updated monthly 28 clear days prior to scheduled Cabinet meetings on a rolling basis). Other decisions are also included where practicable to assist in providing public transparency and confidence in decision making. All agendas and minutes of meetings in respect of Council, Cabinet, Overview and Scrutiny, Non-Executive Committees and statutory boards and published on the council's website.

The council's assurance arrangements conform to the governance requirements of the CIPFA 'Statement on the Role of the Head of Internal Audit in public service organisations (2010)' noting that an updated version of the document was published by CIPFA in April 2019. This updated statement mirrors the Public Sector Internal Audit Standards and is embedded in the Internal Audit Charter & Code of Ethics. The Head of Internal Audit (Chief Internal Auditor) is professionally qualified and is responsible for reviewing and reporting on the adequacy of the council's internal control environment, including the arrangements for achieving value for money.

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The Chief Internal Auditor has direct access to the Chief Executive, and to the council's Monitoring Officer where matters arise relating to Chief Executive responsibility, legality and standards. Where it is considered necessary to the proper discharge of internal audit function, the Chief Internal Auditor has direct access to elected Members of the Council and, in particular, those who serve on committees charged with governance (i.e. the Governance Committee).

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 led by a 'Controls Assurance Management Group' comprising the Executive Director for Finance and Commercialisation and Section 151 Officer, Chair of the Governance Committee, Executive Director Business Services, Service Director – Legal & Business Operations (Monitoring Officer) and the Chief Internal Auditor.

The review process, applied in respect of maintaining and reviewing the effectiveness of the system of internal control, is informed by:-

- The views of Internal Audit regularly reported to Governance Committee via the 'Internal Audit: Progress Report' which includes executive summaries of new reports published and highlights any comments. The Committee is able to request any director attends a meeting to discuss the issues.
- The views of external auditors, regularly reported to the Governance Committee, including regular progress reports, the Annual Audit Letter and Audit Results Report.
- The Chief Internal Auditors 'Annual Report and Opinion' on the adequacy and effectiveness of the council's internal control environment: The Chief Internal Auditor's opinion for 2020-21 was that *****to be advised***** assurance' opinion was given on the effectiveness of the arrangements relating to the framework of governance, risk management and control at Southampton City Council.
- The Internal Audit Charter and delivery of the annual Internal Audit plan but noting that the Audit Plan of assignments was reduced compared to the previous year to reflect the level of resource lost during 2020-21 due to the impact of Covid and the temporary redeployment of some audit staff during this period. The reduction was based on a re-evaluation of the risk level of the activity and an assessment of the requirements of the Council and its immediate priorities.
- The work of the Chief Executive, Executive Directors and Service Directors who have responsibility for the development and maintenance of the control and governance environment;
- The completion of 'AGS Self-Assessment Statements' that cover the key processes and systems that comprise the council's governance arrangements and are intended to identify any areas where improvement or further development is required. The self-assessments are completed by individual Heads of Service or Service Directors on behalf of their service areas in order to ensure that the most representative and comprehensive oversight is obtained, with the individual returns being signed off by the relevant Executive Director.
- Completion of an 'Assurance Framework' document which reflects the key components of the council's overall governance and internal control environment. This document, based on CIPFA/SOLACE guidance, records the key controls in place, and sources of assurance, and identifies any significant gaps or weaknesses in key controls;
- The independent views of regulatory inspection agencies such as Ofsted and the Care Quality Commission;
- The annual report on Risk Management and including the Risk Management Policy and Strategic Risk Register;
- The work of the Governance Committee in relation to the discharge of its responsibility to lead on all aspects of corporate governance.

We have been advised on the implications of the result of the review of the effectiveness of the

ANNUAL GOVERNANCE STATEMENT

governance framework by the Governance Committee, and that the arrangements continue to be regarded as fit for purpose in accordance with the governance framework. The areas already addressed and those to be specifically addressed with new actions planned are outlined below.

SIGNIFICANT GOVERNANCE ISSUES

The following significant governance issues have been identified:

1. Governance Issue

The council's response to the Covid-19 Pandemic has tested both overall organisational resilience as well as the resilience within individual service areas. In respect of the latter it is recognised that, particularly in areas where specialist technical or professional advice is provided, there is reliance on a limited number of key individuals. In part, this is also reflected in the inconsistency in respect of the extent to which succession planning has been formally considered within individual service areas across the council.

Planned Action: Heads of Service to work with their 'Human Resources Business Partner' to fully understand the tools available to develop and have in place appropriate service resilience and succession planning arrangements. The activity may be informed by information and data such as re workforce age profile, grading, structures etc. in order to identify key areas, activities or 'pinch points' where focussed attention is required.

Responsible Officer: Directorate Management Teams with the support of their respective HR Business Partner

Target for completion: End Q4 21-22 (with position reflected on the 21-22 AGS Self-Assessment returns)

2. Governance Issue

As part the preparations for embedding the enhanced standards of financial management reflected in new CIPFA Financial Management Code 2019 for 2021-22, the council undertook a self-assessment against the new Code in order to identify whether there were any significant gaps or areas for further development. The conclusion of the self-assessment was that the council broadly operates within the expected principles, however some areas to further strengthen existing processes were identified.

Planned Action: The necessary areas for improvement to be tabled at the senior management team (Executive Management Board) for discussion and the plan monitored for its implementation.

Responsible Officer: Executive Director for Finance and Commercialisation and Section 151 Officer

Target for completion: End Q2 2021-22

3. Governance Issue

It is recognised that as a large complex organisation that delivers over 700 services there is an ongoing challenge to ensure consistency in terms of staff (both new and existing) awareness, understanding and compliance and with key policies, process and procedures.

Planned Action: As part of the existing 'Performance and Development review' guidance, Human Resources to develop further information regarding what is deemed to be mandatory training.

An 'Ethics and Values' training module, which forms part of a new 'Collaborative Leadership Programme', has been developed. This module, which is targeted at all team leaders and managers below senior level, explores the council's organisational values and ethics and looks at key council policies and frameworks. Managers through interactions as part of the 'Performance Management

ANNUAL GOVERNANCE STATEMENT

and Development Framework and 'one to one' supervision meetings will be required to determine who should attend this training.

Responsible Officer: Human Resources / Directorate Management Teams

Target for completion: End Q1 21-22 re further guidance re mandatory training / End Q4 21-22 re Ethics Module training (with position reflected on the 21-22 AGS Self-Assessment returns)

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

Signed

.....
Sandy Hopkins

Chief Executive

On behalf of Southampton City Council

.....
Councillor Dan Fitzhenry

Leader of the Council

AUDITOR'S REPORT

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DECISION-MAKER:	GOVERNANCE COMMITTEE
SUBJECT:	ANNUAL INTERNAL AUDIT OPINION 2020-21
DATE OF DECISION:	26th JULY 2021
REPORT OF:	CHIEF INTERNAL AUDITOR

<u>CONTACT DETAILS</u>			
Executive Director	Title	FINANCE & COMMERCIALISATION	
	Name:	John Harrison	Tel: 023 8083 4897
	E-mail	John.Harrison@southampton.gov.uk	
Author:	Title	CHIEF INTERNAL AUDITOR	
	Name:	Elizabeth Goodwin	Tel: 023 8083 4616
	E-mail	Elizabeth.Goodwin@southampton.gov.uk	

STATEMENT OF CONFIDENTIALITY

N/A

BRIEF SUMMARY

On an annual basis and in accordance with the Public Sector Internal Audit Standards the Chief Internal Auditor is required to provide an opinion on the adequacy and effectiveness of the Council's framework of risk management, internal control and governance.

In addition to the opinion an update is provided within the report of the Internal audit work carried out since the last reporting period.

The annual opinion for 2020-21 is that 'limited assurance' can be provided. Four audit opinion levels are in place and these are: no assurance, limited assurance, reasonable assurance and full assurance.

The results of the work carried out in 2020/21 show that the level of limited reviews have decreased from the previous year which would indicate that improvements are continuing and that the effectiveness of the internal control environment is therefore improving despite the difficult year with COVID-19. This is a positive indicator despite the overall assurance level of 'limited' that has been attributed to this year i.e no systemic failings and is as a result of pockets of control failures and risk exposure that still require addressing.

Included in the update of work carried out since the last reporting period are two areas of the 2020/21 audit plan that are rated 'No Assurance'. For information both areas have been subject to a follow up as part of the 2021/22 audit plan and both have improved in the assurance level moving to limited.

The full details can be found in Appendix A including the executive summaries for both 'No Assurance' reports. The action plans for Appointeeship (Finance and Adults & Health) and Water Quality (Place) can be found in Appendix B and C respectively.

RECOMMENDATIONS:	
(i)	That the Governance Committee notes the Chief Internal Auditor's Annual Audit Opinion for 2020-21 and the service action plans.
REASONS FOR REPORT RECOMMENDATIONS	
1.	In accordance with proper internal audit practices (Public Sector Internal Audit Standards) and the Internal Audit Charter, the Governance Committee is required to receive the Chief Internal Auditor's Annual Report & Opinion for 2020-21.
ALTERNATIVE OPTIONS CONSIDERED AND REJECTED	
	None
DETAIL (Including consultation carried out)	
	The opinion has been shared with members of the Executive Management Board including the s151 officer.
RESOURCE IMPLICATIONS	
<u>Capital/Revenue</u>	
	None
<u>Property/Other</u>	
	None
LEGAL IMPLICATIONS	
<u>Statutory power to undertake proposals in the report:</u>	
	The Accounts and Audit (England) Regulations 2015 state 'a relevant body must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account the Public Sector Internal Auditing Standards.
<u>Other Legal Implications:</u>	
	None
RISK MANAGEMENT IMPLICATIONS	
	Failure to maintain an effective internal audit functions would result in a failure of the organisation meeting its statutory responsibilities in relation to the Annual Governance Statement and Annual Audit Opinion.
POLICY FRAMEWORK IMPLICATIONS	
	None

KEY DECISION?	No
WARDS/COMMUNITIES AFFECTED:	None
<u>SUPPORTING DOCUMENTATION</u>	
Appendices	
1.	Annual Internal Audit Opinion for 2020-21
2.	Appointeeship Action Plan

3.	Water Quality Action Plan
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Documents In Members' Rooms

1.	None
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Equality Impact Assessment

Do the implications/subject of the report require an Equality and Safety Impact Assessment (ESIA) to be carried out.	No
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Data Protection Impact Assessment

Do the implications/subject of the report require a Data Protection Impact Assessment (DPIA) to be carried out.	No
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Other Background Documents

Other Background documents available for inspection at:

Title of Background Paper(s): Results of work carried out to date.	Relevant Paragraph of the Access to Information Procedure Rules / Schedule 12A allowing document to be Exempt/Confidential (if applicable)
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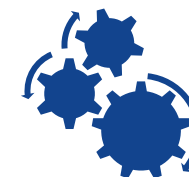


SOUTHAMPTON
CITY COUNCIL

Southampton City Council Annual Audit Report 2020/21

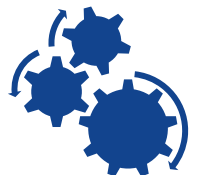
Elizabeth Goodwin, Chief Internal Auditor





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- 5** 2020/21 Audit Assurance by Executive Directorate - page 8 to 9
- 6** Key Areas of Concern - page 10
- 7** Comparative 2019/20 & 2020/21 Exception Risk Rankings - page 11
- 8** 2020/21 Exception Analysis by Risk Classification - page 12
- 9** 2020/21 Follow Up Analysis - page 13
- 10** Quality Assurance - page 14 to 15
- 11** 2020/21 Audits Completed - not previously reported - pages 16 to 21
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1. Executive Summary

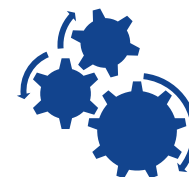
Annual Opinion

On a yearly basis the Chief Internal Auditor is required to form an annual opinion on the effectiveness of the internal control framework in operation at Southampton City Council. This opinion is based on work carried out over the course of the previous financial year (2020/21) and includes an assessment of all results obtained from auditing activities. The details that support the opinion are contained in the body of this report.

The results show a decrease in the number of 'limited assurance' audit findings compared to the previous financial year from 23, in 2019/20 to 15, in 2020/21. There has however been an increase in the number of 'No Assurance' audit findings from 1 report in 2019/20 to 2 reports in 2020/21. The overall assurance level of 'limited' that has been attributed to this year which is as a result of overall results and areas with specific control failures and risk exposure that still require addressing.

Progress Update

In addition to the annual opinion this report also covers the final, previously unreported audit areas completed since the last reporting period. All audit activities have now been closed as completed.



2. Background

Public Sector Internal Audit Standards

2.1 On 1st April 2013 the *Public Sector Internal Audit Standards (PSIAS, the Standards)* were formally adopted in respect of local government across the United Kingdom. The *PSIAS* apply to all internal audit providers, whether in-house, shared services or outsourced. The *PSIAS* were revised from 1st April 2016, to incorporate the *Mission of Internal Audit* and *Core Principles for the Professional Practice of internal Auditing*.

2.2 The *Accounts and Audit Regulations 2015 Section 5*, define the requirement for an internal audit function within local government, stating that:

A relevant authority 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

2.3 The responsibility for maintaining an adequate and effective system of internal audit within Southampton City Council lies with the Executive Director of Finance, Commercialisation & s151 Officer.

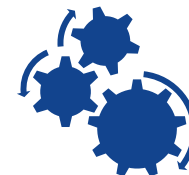
2.4 The Chief Internal Auditor is responsible for effectively managing the internal audit activity, in accordance with the definition of internal auditing, the *Code of Ethics* and the *Standards*.

2.5 In accordance with the *PSIAS* the definition of internal auditing is:

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

2.6 In addition the Chief Internal Auditor will provide an Annual Internal Audit Opinion, based on an objective assessment of the Authority's framework of governance, risk management and control.

2.7 The Annual Internal Audit Opinion must incorporate:



- The Opinion;
- A summary of the work that supports the Opinion; and
- A statement on conformance with *PSIAS* and the results of the quality assurance and improvement programme.

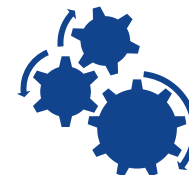
2.8 An annual self-assessment is carried out, as part of *PSIAS*. The assessment for 2020/21 confirmed that Southampton City Council's Internal Audit Service is compliant with requirements.

Statement of Organisational Independence

2.9 The Internal Audit Section has no operational responsibilities for any financial systems, including system development and installation. It does however manage and oversee the arrangements for 'auditing' Direct Payments and provides advice on control implementation and risk mitigation where relevant and throughout the design and implementation stages of new systems.

2.10 The Chief Internal Auditor is free from interference, although has due regard for the Authority's key objectives and risks and consults with Members and Officers charged with governance, when setting the priorities of the annual audit plan, for example; in determining the scope and objectives of work to be carried out and in performing the work and communicating the results of each audit assignment. There must be and is no compromise on the ability of Internal Audit to provide an independent assurance on the control framework.

2.11 The Internal Audit Section has free and unfettered access to the Section 151 Officer, Chief Executive, Monitoring Officer the Leader of the Council and the Chair of the Governance Committee.

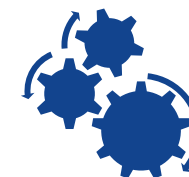


3. Annual Opinion for 2020/21

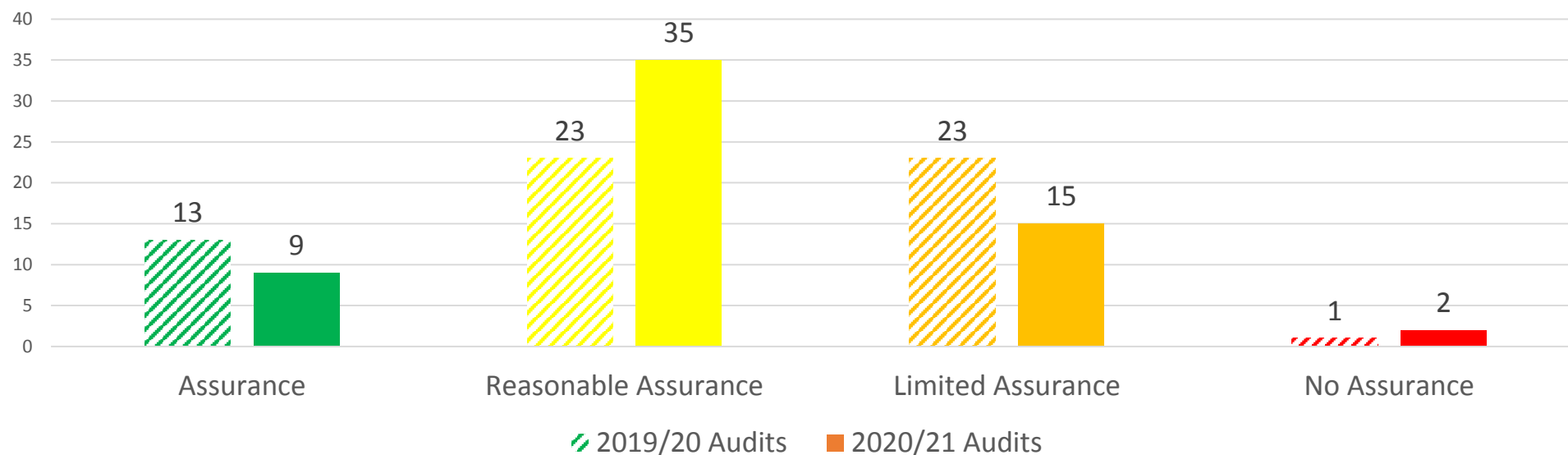
- 3.1 With effect from the 1st April 2017 and in partnership with Portsmouth City Council an in-house team to provide audit service has been established. The team currently consists of an Audit Manager and two Auditors, who are both undertaking professional qualifications. The service is provided by a combination of the in-house provision and colleagues from Portsmouth City Council overseen by a shared Chief Internal Auditor employed by Portsmouth City Council.
- 3.2 Over the course of the year (2020/21) the audit service has completed 72 reviews, covering, full audits and follow up reviews (61) and grant verifications (11). The results of the work carried out show that the level of limited reviews have decreased from the previous year which would indicate that improvements are continuing and that the effectiveness of the internal control environment is therefore also improving. There are two areas as part of the 2020/21 audit plan that are rated 'No Assurance', this is an increase of 1 from the previous year. For information both areas have been subject to a follow up as part of the 2021/22 audit plan and both have improved in the assurance level, moving to limited. The full details are contained further in this report. An area that still requires work is in relation to movement on the implementation of agreed actions to resolve risk exposure indicating that the Authority still has a number of areas that it needs to address.
- 3.3 Four audit opinion levels are in place and these are: no assurance, limited assurance, reasonable assurance and full assurance. Where there are mainly medium or low risk exceptions the annual audit opinion would be reasonable or full assurance. As a result of the findings summarised above and detailed in this report the audit opinion for 2020/21 is **limited assurance**.



- 3.4 Any significant corporate weaknesses and agreed actions will be reflected in the Annual Governance Statement. The impact of the Internal Audit work for 2020/21 may affect that year's work for External Audit. It may also inform their work for 2021/22 and where they consider there are weaknesses in control that could materially affect the accounts they may need to carry out further work to gain the necessary audit assurance required, for a true and fair view of the financial position and compliance with professional codes of practice.



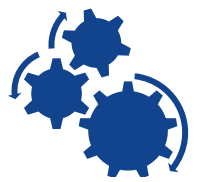
4. Comparative 2019/20 & 2020/21 Audit Assurance Levels



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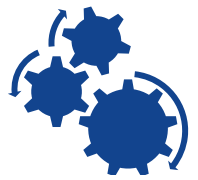
Note: Grant Certifications have not been included in this graph. In the table below the numbers in brackets indicates the change in the number of audits with that assurance level in the 2020/21 financial year compared to 2019/20 financial year.

	2019/20	2020/21
Assurance	13	9 (-4)
Reasonable Assurance	23	35 (+12)
Limited Assurance	23	15 (-8)
No Assurance	1	2 (+1)
TOTAL	60	61

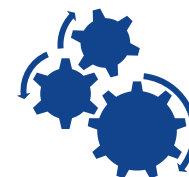


5. 2020/21 Audit Assurance by Executive Directorate





	Assurance	Reasonable Assurance	Limited Assurance	No Assurance	TOTAL
Business Services	0	7	4	0	11
Business Services & Finance	0	1	1	0	2
Children & Learning	2	5	2	0	9
Communities, Culture & Homes	2	1	2	0	5
Communities, Culture & Homes & Finance	0	3	0	0	3
Communities, Culture & Homes & Finance, Place	0	0	0	1	1
Finance	2	6	2	0	10
Health & Adults	1	3	1	0	5
Health & Adults & Finance	0	0	0	1	1
Place	0	7	2	0	9
Schools	2	2	1	0	5
TOTAL	9	36	14	2	61



6. Key Areas of Concern

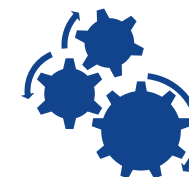
6.1 During 2020/21 two reviews resulted in a **no assurance** reports. These have not been reported to this committee until now and follow up reviews have taken place in accordance with the 2021/22 plan. The combined results are included in section 12.

- **Appointeeships**
- **Water Quality**

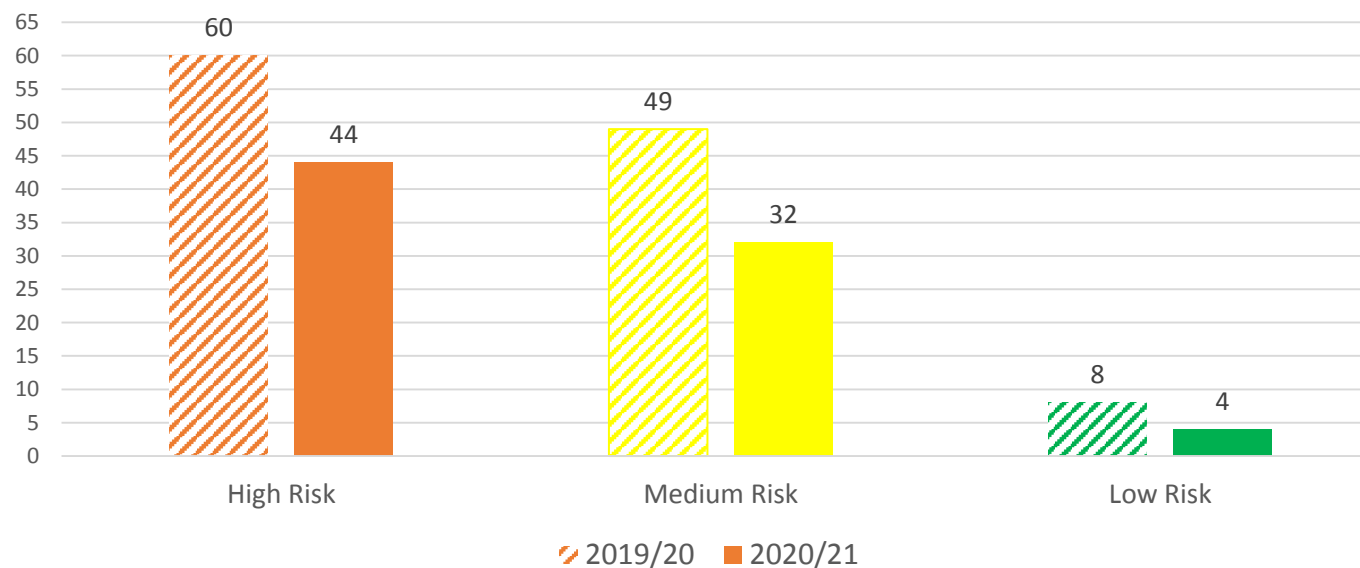
6.2 A residual of concern is in relation to the timeliness of implementing agreed actions to mitigate risk exposure. As noted in the 2020/21 Follow Up Analysis (detailed on page 13) that 43% of the 134 exceptions followed up through 2020/21 had been actioned within the agreed timeframe, meaning 57% is currently outstanding. This is reflective across the organisation. Proposed actions to address this issue have been impacted by COVID-19 and additional steps have been agreed by the Executive Management Board moving forward. This includes continuing second follow up reviews and enhanced reporting on any areas outstanding to members to the Executive Management Board.

6.3 Over the course of the year a number of reviews have resulted in limited assurance being attributed as an overall opinion. There are no particular patterns or trends emerging across the organisation in terms of these reviews. Risk exposure in relation to Compliance with Rules, Regulations and Legislation as detailed in 2020/21 Risk Level by Risk Classification will always be highlighted due to the level of testing under compliance. Any specific concerns will always be factored in if relevant to the Annual Governance Statement.

6.4 Our opinion is in relation to work performed during 2020/21 during the COVID-19 pandemic. There will inevitably be some issues emerging as a result of arrangements and procedures enacted due to the pandemic.

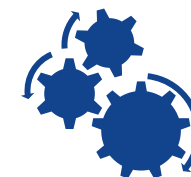


7. Comparative 2019/20 & 2020/21 Exception Risk Rankings

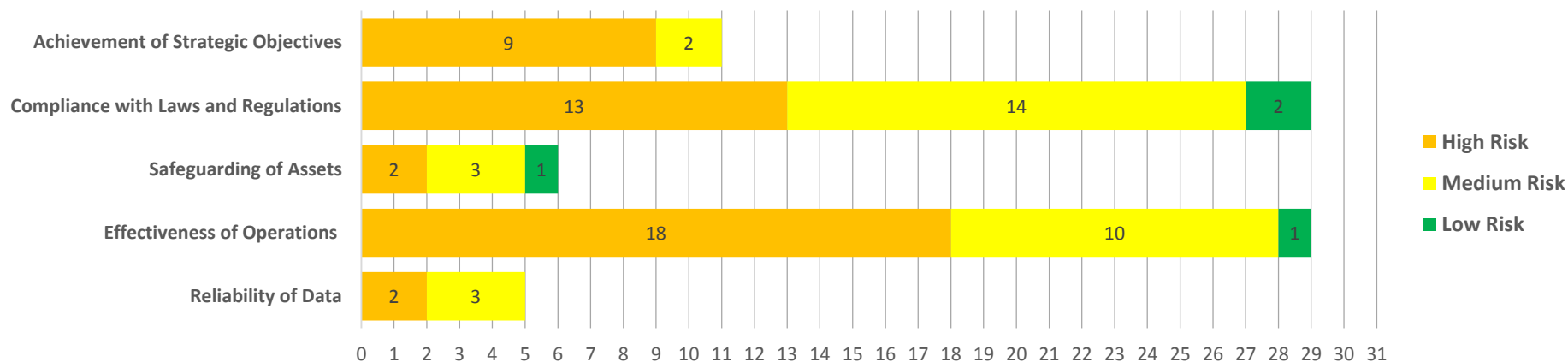


	2019/20	2020/21
Critical Risk	0	0
High Risk	60	44 (-16)
Medium Risk	49	32 (-17)
Low Risk	8	7 (-1)
TOTAL	117	80

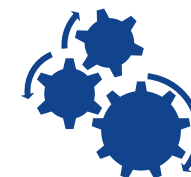
Note: In the table ABOVE the numbers in brackets indicates the change in the number of audits with that assurance level in the 2020/21 financial year compared to 2019/20 financial year.



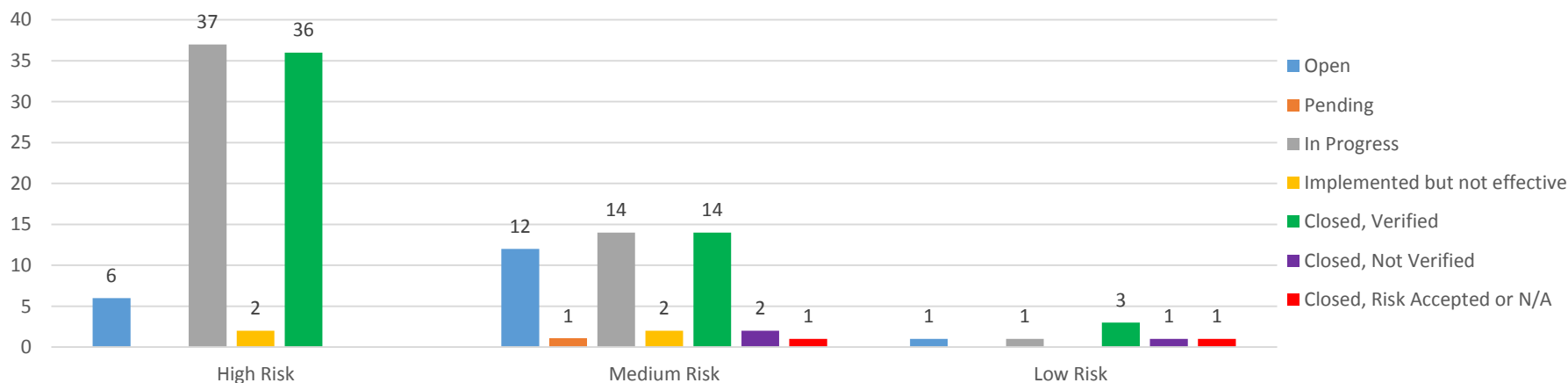
8. 2020/21 Exception Analysis by Risk Classification



	High Risks	Medium Risks	Low Risks	TOTAL
Achievement of Strategic Objectives	9	2	0	11
Compliance with Laws and Regulations	13	14	2	29
Safeguarding of Assets	2	3	1	6
Effectiveness of Operations	18	10	1	29
Reliability of Data	2	3	0	5
TOTAL	44	32	4	80

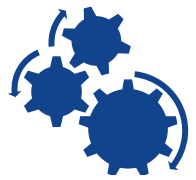


9. 2020/21 Follow Up Analysis



	Open	Pending	In Progress	Implemented, Not Effective	Closed, Verified	Closed, Not Verified	Closed, Risk Accepted	TOTAL
High Risk	6	0	37	2	36	0	0	81
Medium Risk	12	1	14	2	14	2	1	46
Low Risk	1	0	1	0	3	1	1	7
TOTAL	19	1	52	4	53	3	2	134

Internal Audit follows up exceptions where at least one high risk exception has been raised. Exceptions are followed up in the next financial year, to allow for agreed actions to be sufficiently implemented. Any critical risk exceptions are followed up within three months due to the potential severity of the risks identified. The overall position of the 134 exceptions followed up through 2020/21 shows that 58 (43%) have been closed by audit, however 76 (57%) are overdue.

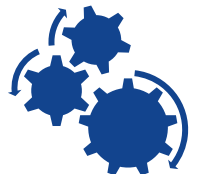


10. Quality Assurance

10.1 As part of the *Public Sector Internal Audit Standards* the Chief Internal Auditor is required to maintain a quality assurance and improvement programme (QA&IP) that covers all aspects of the internal audit activity. This QA&IP must include both internal and external assessments, which are detailed below under section 14.

10.2 In addition to this, quality and improvement requirements are assessed by means of:

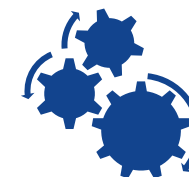
- a.** Sign off by the Chief Internal Auditor or Deputy of all key stages of an audit, for example the scope of work and level of testing to be performed, the conclusion of the work and opinion formed followed by a review of the draft and final reports.
- b.** Weekly 1:1s with all members of staff, within Internal Audit and colleagues who undertake Counter Fraud activities.
- c.** Annual performance reviews of all staff, including the identification and provision of training. The majority of training needs are provided by a combination of external professional studies, supporting by in-house provisions and mentoring.
- d.** All staff above Auditor level are required to undertake professional training or have achieved an education level of degree or above. For those that have completed professional studies as part of their professional body membership, much complete the required Continuous Professional Development
- e.** An annual skills gap analysis across the team, (this includes the wider team) to determine specific potential shortages or gaps. Whilst no major gaps are noted at present, historical gaps in areas such as project auditing, contract auditing and IT auditing have been identified following the departure of employees (including retirement). These shortfalls have been addressed by specified recruitment, bespoke training or if required short term, by means of additional sign off/ mentoring of staff. Areas requiring improvement for this year's assessments are noted below, Skills Gap Analysis Results (10.3).
- f.** All staff complete an annual declaration of interests including a nil return, to avoid any impingement on independence or conflict of interest.
- g.** Feedback has been received during 2020/21 from key stakeholders, all feedback supported the quality assurance assessment reflecting that the service provided complies with *PSIAS* criteria.



Skills Gap Analysis for 2020/21

10.3 Essential Areas: where greater coverage of skills is needed moving forward:

- *Auditing, Specialist IT Auditing skills:* these are limited within the overall service with only two officer currently qualified with a third part-qualified. To address this shortfall, professional training will continue be undertaken for the third officer and use will also be made of resources employed elsewhere under the various partnerships and shared service arrangements.
- *Counter Fraud skills:* whilst there are three officers qualified across the wider Partnership in Counter Fraud (CF) and investigative practice these resources are limited with only one officer leading full time. Two counter fraud posts exist, although one is currently vacant (as at May 2021). During 2020/21 one CF officer was redeployed to support Revenues and Benefits whilst Business Grants were administered. This along with the significant increase in fraud work and now vacant position has placed this area of the service under extreme pressure. Following discussion with the s151 officer at Portsmouth City Council a review of the CF requirements is being carried out.



11. 2020/21 Audits Completed - not previously reported

COVID-19 Assurance Reporting – Corporate

Assurance Level by Scope Area

Purchase Card Use and Spend	Reasonable	Infection Control Grant – Framework Assessment	Assurance
Travel & Subsistence	Reasonable	COVID-19 Bus Subsidy	Assurance
Small Business Grants & Retail, Hospitality and Leisure Grant	Reasonable	Compliance & Enforcement Grant	Assurance
Local Restriction Support Grants & Additional Restriction Grant	Reasonable	COVID-19 Additional Dedicated Home to School & College Transport Grant	Assurance
Discretionary Grants	Limited	Travel Demand Management Grant	Assurance
Income Compensation Claim	Assurance		

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COVID Compliance and Enforcement Grant Memo

Grant Verification – To the best of our knowledge and belief, and having carried out appropriate investigations and checks, in our opinion, in all significant respects, the conditions attached to COVID-19 Local Authority Enforcement and Compliance Grant Determination No.31/5216 have been complied with.



Annual Governance Statement – Finance and Commercialisation

Exceptions Raised				Overall Assurance Level	Assurance Level by Scope Area	
Critical	High	Medium	Low	Reasonable		
0	0	0	0			Achievement of Strategic Objectives
					Compliance with Policies, Laws & Regulations	No Areas Tested
					Safeguarding of Assets	No Areas Tested
					Effectiveness and Efficiency of Operations	No Areas Tested
					Reliability and Integrity of Data	Reasonable

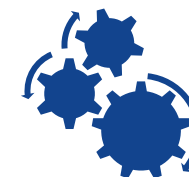
The overall opinion for the areas tested is that reasonable assurances can be placed on the self-assessment returns of governance arrangements. The self-assessment itself is a good annual exercise that provides an opportunity for managers to reflect on the governance arrangements in place and whether there are potential gaps. Ultimately this is one source of intelligence and therefore the AGS content is developed using a variety of inputs. The current AGS is a reflection of all areas of information received.

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Supplier Management – Finance and Commercialisation

Exceptions Raised				Overall Assurance Level	Assurance Level by Scope Area	
Critical	High	Medium	Low	Reasonable		
0	1	0	0		Latest implementation date scheduled is December 2021	Achievement of Strategic Objectives
				Compliance with Policies, Laws & Regulations		Reasonable
					Safeguarding of Assets	Reasonable
					Effectiveness and Efficiency of Operations	No Areas Tested
					Reliability and Integrity of Data	No Areas Tested

One high risk exception was raised in relation to the implementation of the contract management framework and the outstanding exercise to classify all contracts held by the council whether they are strategic, key managed or tactical.



Capital Programme – Place

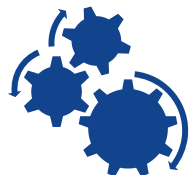
Exceptions Raised				Overall Assurance Level	Assurance Level by Scope Area	
Critical	High	Medium	Low	Reasonable	Achievement of Strategic Objectives	Assurance
0	0	0	0			Compliance with Policies, Laws & Regulations
					Safeguarding of Assets	Assurance
					Effectiveness and Efficiency of Operations	No Areas Tested
					Reliability and Integrity of Data	No Areas Tested

While no exceptions have been raised as part of this audit, there have been significant changes to the capital process in relation to both financial and project management. As such the audit has not been able to sample test projects completely following this new way of working. The focus has been to review the projected plans to provide an opinion on their effectiveness. Therefore, while audit have the opinion that the proposed changes and current new processes will aid in mitigating the risks associated with capital projects, it can only offer reasonable assurance as substantive testing could not be undertaken.

IT Project (Implementation of CareDirector) – Business Services

Exceptions Raised				Overall Assurance Level	Assurance Level by Scope Area	
Critical	High	Medium	Low	Reasonable	Achievement of Strategic Objectives	Reasonable
0	1	0	0		Latest implementation date scheduled is November 2021	Compliance with Policies, Laws & Regulations
						Safeguarding of Assets
					Effectiveness and Efficiency of Operations	No Areas Tested
					Reliability and Integrity of Data	No Areas Tested

One high risk exception has been raised in relation to the implementation timeline, system development has not progressed at the anticipated rate incurring additional costs for the council. Furthermore, there is ambiguity regarding which of the Council’s 684 system requirements will be present when the system is scheduled to go live in November 2021. The vendor has confirmed that mandatory functionality will be present but not all functionality the Council would like to have are likely to be present from day one in the new system.



Contact and Procurement ICU - Health & Adults

Exceptions Raised

Critical	High	Medium	Low
0	2	0	0

Overall Assurance Level

Reasonable

Latest implementation date scheduled is December 2021

Assurance Level by Scope Area

Achievement of Strategic Objectives	Reasonable
Compliance with Policies, Laws & Regulations	Limited
Safeguarding of Assets	No Areas Tested
Effectiveness and Efficiency of Operations	Assurance
Reliability and Integrity of Data	No Areas Tested

The first high risk relates to testing identifying 4/13 supplier payments sampled, although each payment was below £5k the aggregated spend over the year was over the £5k threshold and had not gone through procurement with 1/13 suppliers total aggregate spend being £153k. While this is under the EU threshold, it should be investigated to establish whether it should be part of a larger contract. The second high risk relates to non-compliant spend for temporary labour which totalled £1,296,405 over a six month period.

Carers (Care Act Compliance) – Health & Adults

Exceptions Raised

Critical	High	Medium	Low
0	0	4	0

Overall Assurance Level

Reasonable

Latest implementation date scheduled is April 2022

Assurance Level by Scope Area

Achievement of Strategic Objectives	Reasonable
Compliance with Policies, Laws & Regulations	Reasonable
Safeguarding of Assets	No Areas Tested
Effectiveness and Efficiency of Operations	No Areas Tested
Reliability and Integrity of Data	Reasonable

The first medium risk was raised in relation to the Carers Strategy, although progressing, being a draft document at the time of testing. The second medium risk relates to the Action Plan and Roadmap in terms of meeting Carer Strategy statutory requirements not having been finalised and there being a recognition that further improvements into the areas of advice, information and early prevention support are required to fulfil statutory duties upheld by the authority. The third medium risk relates to there being no offer of Parent Carer assessments, no option for a more ‘person centred’ approach for carer assessments and lack of adult carers being linked on PARIS. The final medium risk relates to there being no integration between PARIS and Imosphere (Carers of Southampton assessment software).



Business World (Key Controls) – Business Support & Finance

Exceptions Raised

Critical	High	Medium	Low
0	3	1	0

Overall Assurance Level

Limited

Latest implementation date scheduled is July 2021

Assurance Level by Scope Area

Achievement of Strategic Objectives	No Areas Tested
Compliance with Policies, Laws & Regulations	No Areas Tested
Safeguarding of Assets	No Areas Tested
Effectiveness and Efficiency of Operations	Limited
Reliability and Integrity of Data	No Areas Tested

The first high risk relates to a number of admin access privilege rights ‘AGSYSTEM’ and ‘SUPERUSER’ where users did not require this level as part of their roles. The second high risk relates to the review of 10 cost centre authorisation levels where for 1/10 the senior manager in post had not delegated authorisation to any levels of authorisation within their cost centre and 1/10 did not have the appropriate senior manager assigned to its authorisation levels. The final high risk relates to Financial Planning and Analysis software not yet being implemented and Finance being unable to design their own Business World reports. The medium risk relates to the Change control form allowing the originator of the change request to implement it.

Direct Payments – Adults & Health

Exceptions Raised

Critical	High	Medium	Low
0	4	1	1

Overall Assurance Level

Limited

Latest implementation date scheduled is March 2021

Assurance Level by Scope Area

Achievement of Strategic Objectives	No Areas Tested
Compliance with Policies, Laws & Regulations	Limited
Safeguarding of Assets	No Areas Tested
Effectiveness and Efficiency of Operations	Limited
Reliability and Integrity of Data	Limited

The first high risk exception was raised in relation to a sample testing of 20 Direct Payment cases being unable to locate: an initial assessment for 8 cases, a Direct Payment agreement for 7 cases, details of the approving panel for 6 cases and 2 cases not having a Care and Support Plan in place. The second high risk relates to a review of ten pre-paid card accounts which were found to lack monitoring with 6/10 accounts having a balance in excess of their 8 week funding and one case had no expenditure at all. The third high risk relates to testing identifying occasions where funds remained in the clients account or Allpay card, which could still be accessed, after the end of the Direct Payment. The final high risk relates to testing of 20 cases where 16/20 had at least one piece of documentation which could not be located on their PARIS account. The medium risk relates to the reasoning behind the offer of a Direct Payment are not always clear.



Accounts Payable – Finance and Commercialisation

Exceptions Raised				Overall Assurance Level	Assurance Level by Scope Area	
Critical	High	Medium	Low	Limited	Achievement of Strategic Objectives	No Areas Tested
0	2	4	1	Latest implementation date scheduled is September 2021	Compliance with Policies, Laws & Regulations	Reasonable
					Safeguarding of Assets	Reasonable
					Effectiveness and Efficiency of Operations	Limited
					Reliability and Integrity of Data	Reasonable

The first high risk was raised in relation to where testing identifying £1.87 million in unauthorised payments which were awaiting authorisation for longer than 30 days. The second high risk relates to a lack of duplicate supplier checks. The first medium risk relates to Business World users having system access they did not require as part of their roles. The second medium risk relates to a sample of 18 payment without invoice (PWI) transactions which found where 2/18 were not compliant with the PWI process. The third medium risk relates to delays in the tranman payment run occurring if suppliers are setup incorrectly and the medium risk relates to there being no monitoring of the number of automated payments.

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12. 2020/21 Audits Completed and followed up - not previously reported

Water Quality - Place, Communities Culture & Homes and Finance and Commercialisation

Exceptions Raised

Critical	High	Medium	Low
0	8	0	0

Original Assurance Level

No Assurance



1st Follow-up Assurance

Limited Assurance

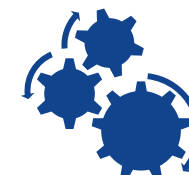
Executive Summary

A review of the water Quality processes was carried out as part of the 2020/2021 audit plan. Reviews undertaken historically had raised a number of water quality concerns. These reviews identified areas requiring attention in order to achieve a more robust regime of Legionella risk management. The 2020/21 audit also raised similar concerns and the overall opinion attributed to this review was that 'No Assurance' could be provided that the underlying arrangements were robust enough to effectively manage risk exposure.

Due to the assurance level provided, follow up work commenced immediately and this report covers both the original points raised and current position with regards to implementing actions agreed.

The Council's management team were already aware of wider control weaknesses in relation to compliance issues and commissioned an independent review by technical experts in this field. A subsequent report has been issued with numerous findings and proposed recommendations. The review provides a technical assessment of compliance with legislative and statutory requirements and best practice. There is also a detailed action plan that is being implemented. It is envisaged that any recommended revision of risk mitigation agreed as part of the Internal Audit review will be considered and where required the report updated.

The follow up of audit has therefore been conducted as part of the 2021/2022 audit plan.



Achievement of the Council’s strategic objectives

Limited Assurance



Limited Assurance

Original

Follow-up

Responsible Person

The Council's Safe Working Procedure document details the Water Quality staff structure and roles, however previous audit testing was unable to confirm which employee was responsible for each role or whether they are aware of their responsibilities, as there was no central register of responsible persons in place.

Follow up testing established that the lack of responsible person register was discussed at the Health and Safety Board Meeting of the 24/06/21. An action has been raised for the relevant officers from the property division to draw up a responsible person list, and the progress of this agreed action will be reviewed at future H&S Board meetings. The high risk exception remains in progress.

Training and Qualifications

During previous audit testing it was identified that a central record of all staff with water quality responsibilities was not held and it was not possible to identify if relevant training had been undertaken.

Follow up discussions established that training for all responsible persons is being programmed for July 2021 and a responsible person register will be implemented to identify all staff that require training. Once this is complete Property Division and the Health, Safety and Wellbeing Team will identify the most effective way to roll the training out at all sites, and to all responsible persons. The high risk training and qualification exception remains in progress.

Compliance with Policies, Laws and Regulations

Limited Assurance



Limited Assurance

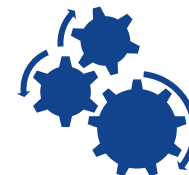
Original

Follow-up

Risk Assessments

The previous audit review established that for 30 Housing properties, no current (completed within the last 2 years) risk assessments could be identified.

Follow up testing of the 30 Housing established that these properties now have current water quality risk assessments, however the drive to ensure that these properties received an assessment has impacted those scheduled for Property Division locations. Additional testing established that there are 7 currently expired risk assessments which have been programmed for completion by the end of July 2021. The high risk exception remains in progress.



Monitoring, Testing and Flushing

Property Division

Paper record log books are held at each site to record temperature readings and any concerns raised. Previous audit testing highlighted that 10 locations were missing from the log book audit tracker, and log book review could not be evidenced.

Follow up discussions with a Technical Administrator established that the Property Division are working towards a joined up approach with electrical and mechanical engineers to arrange one annual log book review. The team will aim to complete at least a 20% check of all log books annually.

Housing

Original testing compared Property Division and Housing records and found 2 locations missing from the Housing monitoring schedule. Discussions between Property Division and Housing Operations confirmed that two premises had been erroneously omitted from the schedule and were not being monitored.

Follow up testing confirmed that water quality monitoring had commenced on both properties while the audit was in progress.

The previous audit review of 4 site flushing records and 21 site temperature monitoring records was conducted to ensure monitoring was being carried out and any concerns were being escalated. Testing highlighted that for 7/25 properties there was no monitoring records held.

Follow up testing of 25 different properties also highlighted irregular monitoring records, however, further testing following the implementation of a new monitoring schedule confirmed an improvement. The review highlighted that 9/21 water outlets did not meet the temperature standard. These readings have been selected for the remedials testing shown below. The high risk exception remains in progress.

Effectiveness and Efficiency of Operations	Limited Assurance	Limited Assurance
	Original	Follow-up

Remedial Works

Property Division

10 Risk Assessments were reviewed as part of the previous audit and any issues raised were followed through to works order and then completion. The same test was conducted for issues raised as a result of 10 temperature monitoring records. Of the 10 risk assessments reviewed, inadequate record keeping was identified in 4/10 remedials raised and it was not possible to establish the current status of any repairs.

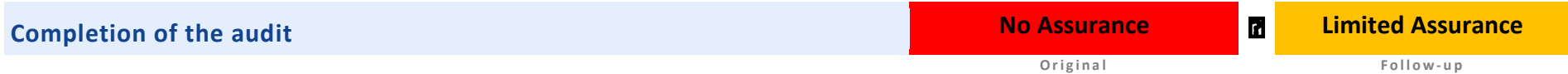


Follow up testing reviewed 20 remedial records and found that it was not possible to trace records from works order to completion for 10/20 remedials reviewed.

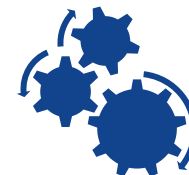
Housing Operations

Testing during the original audit carried out on 20/55 Housing properties highlighted that, 6/10 risk assessment remedial works orders could not be evidenced, and only 2/10 temperature monitoring remedials had works orders raised.

Following up testing established that any faults identified as a result of regular monitoring are now forwarded to the Property Division to monitor. A review of 19/55 Housing records highlighted that it was not possible to confirm the status of 16/19 remedials. The high risk remedial exception remains open.



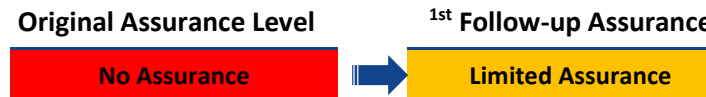
Overall, testing during the follow up review has evidenced progress has been made in mitigating risk exposure. All areas for the 6 high risk exceptions are in progress and the 2 medium risk exceptions raised have been closed.



Appointeeship – Health & Adults / Finance and Commercialisation

Exceptions Raised

Critical	High	Medium	Low
0	8	2	2



Executive Summary

A review of the Appointeeships process was carried out as part of the 2020/2021 audit plan. The scope of the review focussed on the financial element of the systems in operation, although it was noted that this function straddled both Finance and Adult Social Care (ASC) services, with ASC leading on some financial areas. The findings from the review were shared with ASC and both services recognised that moving forward the issues identified required a partnership approach to establish and define roles and responsibilities.

The overall opinion attributed to this review, was that 'No Assurance' could be given on the effectiveness of the control environment for the administration of Appointeeships. One of the actions proposed and agreed was for the Council to commission an independent End to End process review. This was to enable a more technical assessment to be carried out specifically focusing on service delivery against legislative requirements. The outcome is pending and is likely to have an impact on the underlying arrangements that support the delivery of this function. This may also influence or change the direction in relation to agreed actions as a result of the audit review.

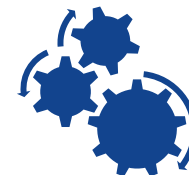
Due to the assurance level provided, follow up work commenced immediately and this report covers both the original points raised and current position with regards to implementing actions to mitigate risk exposure.

The follow up of audit has therefore been conducted as part of the 2021/2022 audit plan. At the time of this follow up review (April - June 2021) the Council were acting as an Appointee for 324 clients with a total account balance of £3,017,717.35. Only high risk narrative is included for information.

Compliance with Policies, Laws and Regulations	Limited	Limited
	Original	Follow-up

Procedures and Document Management

Original testing sourced the supporting procedures available for the Appointeeship function. The review highlighted that some procedures were not documented resulting in a lack of clear guidance for all the functions within the Appointeeship service.



Testing also established that a standalone client management system was not being used to support this function. Client account documentation was primarily being stored within folders on a shared outlook account. Some correspondence was sent from the shared mailbox and some emails were replied to from officer's personal email accounts. During the audit, new procedures were put in place to ensure documents are moved to the correct client folders on the corporate drive as part of daily email housekeeping. A client 'notes' system on the Access database was also introduced to identify casework actions taken for each client. This system was introduced on 9 March and was in its infancy at the time of testing.

The Service Manager advised during the audit that a GDPR self-assessment had not been completed for the process, database and storage locations.

Testing noted that this is not a statutory requirement, however due to the nature of the tasks undertaken by the Appointeeship function, completing a risk assessment would identify, address and provide assurance that the function is compliant and operating effectively.

A high risk exception was raised.

Follow up testing established the following:

- That all procedures had been updated within the last year.
- The 5 year IT plan which was agreed by Cabinet and a Full Council Meeting is now with Procurement for progression, and currently in market appraisal stage.
- A Data Protection Impact Assessment and a new privacy notice have been completed.

The high risk exception raised as a result of the original audit remains in progress.

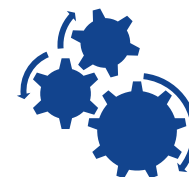
Income and Expenditure

Original testing raised queries with 3/5 (60%) of the client files reviewed, including missing documentation for 2 clients and missing records for one client. Without this information on file it was not possible to evidence that the client's finances were in order, income being received was correct according to their benefit entitlement and invoices had been paid. A high risk exception was raised.

Follow up testing reviewed the transactions of 5 client accounts. For all 5 (100%) accounts documentation was missing. The missing documentation included benefit award letters and regular payment information. The high risk exception remains in progress.

New Applications

As part of the previous audit, a sample of 10 clients were selected for review to ensure that the appropriate documentation had been submitted and the relevant form had been returned, authorising SCC to act as an appointee for each client. For 3/10 (30%) of the sample no form could be evidenced during testing, it was noted for these cases that the Authority had been in receipt of money in respect of these 3 clients and the CMS team had been processing monies for clients without the legal authority to act on their behalf. A high risk exception was raised.



Follow up testing also selected 10 client records for review and found that for 9/10 clients, forms were present, and the remaining form was being processed. The high risk exception has now been closed.

Effectiveness and Efficiency of Operations

No Assurance

Original

Limited Assurance

Follow-up

Accounts in excess of £16,000

The original audit review identified 64 client accounts with a balance in excess of £16,000. Testing established that a report showing the client name and account balance is produced monthly and shared with Adult Social Care, to ensure these clients were being considered for transfer to Deputyship. However, at the time of testing it appeared this process did not continue to transfer eligible clients to the Deputyship scheme. A high risk exception was raised.

Follow up testing established that all client accounts which hold a balance in excess of £16,000 are to be reviewed to ensure they are receiving support in line with a set criteria. This review began on 17 September 2020. There is no legal requirement to transfer clients with an account balance of £16,000 to deputyship, this was a historic figure taken by SCC, and therefore the decision has been taken to only transfer those clients with a balance of £23,000 (self-funding limit) to HCC Deputyship. At the time of testing 20 accounts were awaiting review. This has not been verified by Internal Audit.

Third Party Probate Researchers

During the deceased procedure testing, Internal Audit established that 19 deceased cases with a total value of £247,370.24 had been transferred to a tracing company, although no contract was in place. A high risk exception was raised.

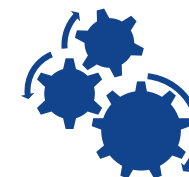
Follow up testing established that there is now a Service Level Agreement and Data Sharing Agreement in place with the third party. There is no charge to the Council for this service, as any fees and charges will be taken from the deceased’s estate by arrangement with the next of kin. Unclaimed estate left by SCC clients is also shared on the Government’s Bona Vacantia website to assist in locating next of kin. The high risk exception has now been closed.

Deceased Client Accounts and Deceased Client Accounts with no Next of Kin

Original testing reviewed 10/29 deceased accounts to evidence that processes had been followed to identify next of kin. In all 10 cases reviewed there have been areas of process noncompliance and/or unexplained time delays. A high risk exception was raised.

Follow up testing established that a new procedure for managing deceased accounts is now in place. A sample of 10/28 deceased account files were reviewed to confirm compliance with the procedure document and that there had not been any significant delays. For 6/10 accounts, supporting

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documentation could not be found in the relevant client folder. 1/10 accounts were missing from the tracker and it was not possible to establish a position update, and for 4/10 accounts there had been unexplained delays of between 1 and 3 months in progressing to closure.

The high risk exception remains in progress.

Emergency and Extra Payments

Original audit testing reviewed the transaction logs for 4 emergency payment cards (14 individual payments, 5 were subsequently tested). For 3/5 (60%) payments, testing was unable to evidence a completed emergency payment form signed by all parties. For the remaining 2 (40%) payments that had completed, emergency payment forms, evidence of a receipt for the withdrawal of cash was sighted, however in both cases the receipts were not signed by the client as per the requirements of the process.

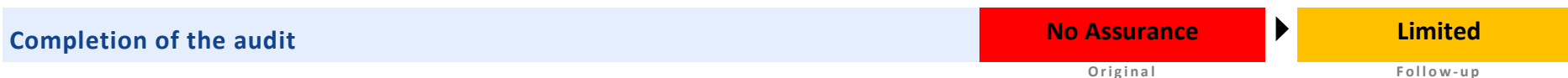
A high risk exception was raised.

Follow up testing ascertained that this position has been resolved and the high risk exception has now been closed.

Charging Policy

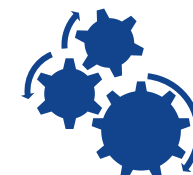
The issue of a lack of a charging policy has been raised historically and consideration was being given as to whether this was an appropriate move for the Council to adopt.

An options appraisal document linked to charging proposals is being drafted. An independent review of the end-to-end appointeeship process has been commissioned and commenced on 7th June 2021. The scope of this review includes making recommendations on level of resource. This will impact the document on charging proposals.



The original audit raised eight high risk exceptions, two medium risk exceptions and two low risk exceptions. Three high risk, one medium and two low risk exceptions have now been closed. The remaining exceptions (five high, one medium) are all in progress.

Appendix B contains the Action Plan from the service areas (Finance & Health & Adults. This also details progress to date.



13. Follow-Up Audits Completed - not previously reported

Housing Depot (Responsive Repairs) – Finance & Commercialisation and Communities, Culture & Home

Original Exceptions Raised

Critical	High	Medium	Low
0	2	1	0

Latest implementation date scheduled for follow up action is March 2022

Original Assurance Level

Limited Assurance

2nd Follow-up Assurance

Reasonable Assurance

Follow Up Action

Open	In Progress	Implemented but Not Effective	Closed: Verified	Closed: Not Verified	Closed: Management Accepts Risks	Closed: No Longer Applicable
0	1 (High) 1 (Medium)	0	1 (High)	0	0	0

Follow up testing was able to close a high risk exception due to there being continuous improvements in the number of quality control checks being undertaken on responsive repair jobs. The second high risk remains in progress as a report for monitoring MRC accounts as not yet been produced which could lead to the raising of incorrect invoices. The medium risk remains in progress as there are no documentation, meeting minute or data available to support the formal decision of keeping MRC charges at the same rate.

HMO Licensing – Communities, Culture & Home

Original Exceptions Raised

Critical	High	Medium	Low
0	3	1	0

Latest implementation date scheduled for follow up action is throughout 2021/22

Original Assurance Level

Limited Assurance

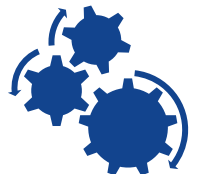
Follow-up Assurance Level

Limited Assurance

Follow Up Action

Open	In Progress	Implemented but Not Effective	Closed: Verified	Closed: Not Verified	Closed: Management Accepts Risks	Closed: No Longer Applicable
0	2 (High), 1 (Medium)	0	1 (High)	0	0	0

Follow up testing was able to close a high risk exception due to fees being collected in line with the fees and charges policy. The first high risk that remains open relates to the backlog of condition monitoring with 20% of licensed properties having outstanding high risk conditions. The second high risk and medium risk remain in progress while enforcement action is suspended due to COVID-19 and work on reportable information/statistics remains.



Accounts Receivable – Finance & Commercialisation

Original Exceptions Raised

Critical	High	Medium	Low
0	1	3	0

Latest implementation date scheduled for follow up action is throughout 2021/22

Original Assurance Level

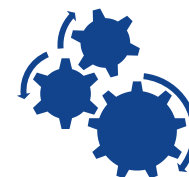
Reasonable Assurance	➔	Reasonable Assurance
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Follow-up Assurance Level

Follow Up Action

Open	In Progress	Implemented but Not Effective	Closed: Verified	Closed: Not Verified	Closed: Management Accepts Risks	Closed: No Longer Applicable
0	3 (Medium)	0	1 (High)	0	0	0

Follow up testing was able to close a high risk exception. The first medium risk exception relating to recovery action remains in progress while recovery action was temporarily suspended at the start of the COVID-19 pandemic followed by a softer approach being introduced. Net collection rates across all debt collected by CP&D reduced from 94.79% to 92.86% in Q4 2020/21. The second medium risk relating to timely write-offs remains in progress as although work has begun on Adult Social Care and individuals' accounts, Internal Audit were unable to establish any business write-offs. The final medium risk relating to system access remains in progress due to 2 users having access they did not require as part of their roles.



14. Counter Fraud & Audit Unplanned Reactive Work

14.1 A summary has been provided of Counter Fraud and Audit reactive work conducted during the 2020/21 year.

14.2 Business Grants:

While processes were put in place to manage the grant application process, like any application, these can be subject to attempts of fraud. Given the national scheme and haste in which local authorities had to implement them, SCC were subject to a number of attempted frauds which targeted Authorities across the Country. Unfortunately one payment was made on the basis of a fraudulent claim with a value of £25k.

Additional fraud attempts were prevented for three cases, all of which were subsequently reported to National Investigation Service (NATIS).

14.2 Investigations

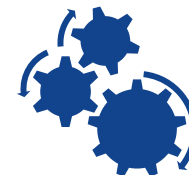
- There were 2 right to buy cases investigated jointly with the service, one required no further action and one application was subsequently withdrawn.
- Two cases of suspected fraud were investigated and resulted in one with no further action and the other where controls arrangements were enhanced.
- There was one investigation completed where an assessment was made as to whether due process had been undertaken following receipt of a complaint.

14.4 Ongoing NFI

The Internal Audit Team are responsible for the management and admin of the Authority's participation in the National Fraud Initiative (NFI) which is a mandatory scheme in which multiple data sets are uploaded and analysed. The results are then presented back to the council for investigation. Responsibility for investigating the referrals is split across multiple teams including the Counter Fraud Team.

14.5 Advice

Internal Audit gave 10 items of advice across varying council services on risk and control throughout the financial year 2020/21. Advice is recorded if the time spent to conduct the required work exceeds 1 hour of officer time.



15. Public Sector Internal Audit Standards

Introduction

- 15.1** Under the *Public Sector Internal Audit Standards (PSIAS, the Standards) Standard 1310* requires that, as part of the quality assurance and improvement programme internal and external assessments (of conformance with the *PSIAS*) must be undertaken. *Standard 1311* allows for periodic self-assessments, which has been performed on an annual basis for Southampton City Council but also wider on Portsmouth City Council. The results of the self-assessment have been communicated annually alongside the annual audit opinion to this committee.
- 15.2** *Standard 1312* requires that an external assessment must be conducted at least once every five years by a qualified, independent assessor or assessment team from outside the organisation. The Standards state that a qualified assessor demonstrates competence in two areas; the professional practice of internal auditing and the external assessment process. Competence can be demonstrated through a mixture of experience and theoretical learning. An independent assessor means not having an actual or perceived conflict of interest and not being part of, or under the control of, the organisation to which the internal audit activity belongs. During 2017/18 an external assessment was undertaken on Portsmouth City Council's Internal Audit & Counter Fraud Service and an external assessment will be commissioned for Southampton City Council during the next five years. A second external assessment is planned for the financial year 2022/23.

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Action Ref	Issue	Action Agreed	Responsible person	Action by date	Current status of Action (RAG)	Comments
1	Charity money	Seek legal advice about action to be taken and progress	Jo Chapman	Completed		Legal advice sought and process followed. Investigation identified that funds were a mixture of SCC and charitable monies. Remaining funds (£16,102.27) transferred to General Fund as it was confirmed that no living or deceased appointeeship client was entitled to the funds.
2	Allocation descriptions on shared drive	Update references in team records as referring team names have changed following restructures	Jo Chapman	Completed		Minor housekeeping issue.
3	Separation of duties and reconciliation	Walk through to demonstrate Bankline system to auditor to demonstrate how system does separate duties so that one staff member raises the payment and another one authorises it. This is complemented by separate paper records which audit flagged duplicates the banking record	Jo Chapman	Completed		Need for separate paper records reviewed. It enables staff to quickly review records without accessing the banking system so retained. Audit has closed the action linked to this issue.
4	Compliance with policies and procedures for all aspects of the appointeeships process, within finance and ASC	Set up joint working group between Finance and Commercialisation and Adult Social Care	Jo Chapman, Prisca Mascarenhas and Louise Ryan	Completed		Working group established. Variety of meetings held - whole group and subgroups - to address issues identified in audit

5	Emergency and extra money requests	Track extra money requests by including detail on case notes. Working group to review emergency payment procedures	Jo Chapman, Prisca Mascarenhas and Louise Ryan	Completed		Review of forms and process complete. Detail on case notes re: extra money requests implemented immediately flagged by audit. New extra/ emergency payment request form devised and uploaded to intranet. Weekly team meetings held with Client Monies Team to ensure all necessary information being captured and uploaded to client folders.
6	Previous audit actions	Review previous audits to identify any patterns	Vanessa Shahani	Completed		<p>13/14, 17/18, 18/19 and 20/21 audits were reviewed. Over time the service has been managed by Finance, ASC and Finance & Commercialisation (Income and Expenditure).</p> <p>Audits were reviewed to assess which improvement actions were highlighted in all four audits, in at least two audits as well as identifying which actions were resolved. One audit was reasonable assurance, one limited, two no assurance. The one audit with reasonable assurance resulted from time limited additional resource being brought in to address concerns highlighted in the 17/18 audit.</p>

						<p>Issues that repeat across all or most of the audits are:</p> <ul style="list-style-type: none"> • Referring clients to the County Council • Lack of a charging policy • Need for client case management system • Dealing promptly with the affairs of clients who have died • Ensuring accurate records kept of emergency and extra payments <p>Implicit in these issues is the need for improved clarity of roles and responsibilities of the different teams involved in providing the service and ensuring it is sufficiently resourced.</p>
6	SLA with Fraser and Fraser (deceased clients no next of kin)	Agree SLA with Fraser and Fraser, complement with use of government's Bona Vacantia service	Jo Chapman	Completed		SLA agreed and government service being used.
7	Carry out risk assessment	Seek advice from Information Solicitor as process suggested by auditor does not exist in SCC.	Jo Chapman	Completed		Advice sought and agreed to complete DPIA. Primary data owned by ASC. Action from DPIA to issue privacy notices to next of kin and care managers completed. Easy read privacy notice also developed for clients. Privacy notice published on SCC website. Information Solicitor confirmed this is sufficient.

8	Accounts of deceased clients	Institute procedure to review accounts regularly and where no NOK identified then use government service or Fraser and Fraser	Jo Chapman	Completed and ongoing		New procedures in place. Accounts of deceased clients reviewed monthly. Advertised on government Bona Vacantia website. Attracting interest from other tracing agents. Service Manager exploring how cases can be shared with numerous agents in effort to close down cases more quickly. A number of accounts with low values (under £500, some as low as 42 pence) are being reviewed by Fraser and Fraser. 24 cases with a total value of £7442.55 were referred to Fraser and Fraser to trace beneficiaries. This so far has enabled the authority to dispose of £2538.86 in funds (11 cases) and it is expected that further amounts will be disposed of, therefore, the exercise is ongoing.
9	Procedures and documentation	Review all current procedures - check existing procedures up to date and ensure procedures written where necessary	Jo Chapman	Completed		All procedures highlighted in audit reviewed and updated. Exercise identified the need for additional procedures. Also reviewed and updated
10	Lack of case management system	Submit bid for funding via 5 year IT plan; if successful progress procurement	Vanessa Shahani and Jo Chapman	Completed		Funding approved as part of 5 year IT plan. Procurement request submitted. At market appraisal stage. Tender, implementation and staff training process will be completed by May 22.
11	Referral form	Review form to ensure captures all required information	Jo Chapman	Completed		Form revised.
12	Screening process	Institute review meetings to ensure clients being referred appropriately	Jo Chapman	Completed and ongoing		In place, meetings held with referring practitioners to ensure referral appropriate and, if so all necessary information gathered to progress referral

13	Benefit maximisation	Recruit additional resource to review client accounts to ensure all claiming benefits entitled to	Jo Chapman and Vanessa Shahani	31/05/2021		6 month resource moved from Customer Payment and Debt Team to lead reviews
14	End to end review	Source and commission independent reviewer to carry out an end to end review of the whole appointeeship process	Vanessa Shahani	w/c 7/06/2021		Brief agreed with internal audit. Start date 7/6/21. Reviewer completed all interviews and currently writing up findings.
15	Information on "Staff Stuff"	Review information on "Staff Stuff" to identify whether it could be improved.	Jo Chapman, Prisca Mascarenhas and Louise Ryan	14/07/2021		Accounts Payable pages reviewed and updated with revised forms. Care Manager guide reviewed and updated on ASC pages
16	Draft report	Discussion draft report with key internal stakeholders, agree any further action needed with reviewer prior to finalising	Vanessa Shahani/Glenda Chambers	30/07/2021		Summer leave may impact deadlines
17	Report recommendations	Review report recommendations with key internal stakeholders	Vanessa Shahani	27/08/2021		Summer leave may impact deadline

18	Missing documentation	Review all information held on shared drive and emails for all clients and ensure filed correctly	Jo Chapman	30/09/2021		<p>All client files reviewed at time of first audit to ensure B57s filed in correct folder. Additional resource secured till end September to support this process. Currently 120 out of 283 client folders reviewed. This activity has been complemented with weekly team meetings led by the Service Manager which include reminders of the importance of accurate filing.</p> <p>As well as taking the opportunity to ensure that new procedures are embedded as BAU. A folder checklist has been produced to ensure each client file contains the required information. Follow up testing confirmed that all B57 forms (DWP form giving SCC authority to act as appointee) were either already filed (9/10) or in process of being done (1/10) so audit closed action.</p>
19	Agency clients	Review to see if still required to be supported as appointees	Anne Flanagan/Prisca Mascarenhas	30/09/2021		17 clients required reassessment initially. 3 had passed away; 1 transferred to appointeeship, 1 retained as agency client. 12 clients remain to be reassessed.
20	Emergency and extra money requests	Extra and emergency payments - review of decision making process	Jo Chapman, Prisca Mascarenhas and Louise Ryan	30/09/2021		Review roles and responsibilities between ASC and Client Monies team to determine the most appropriate decision making process in respect of these payments

21	Transfers to Deputyships	Review clients waiting to be transferred to HCC deputyship service and progress	Anne Flanagan/Prisca Mascarenhas	30/09/2021		Word template designed to review clients. There are two categories of clients to be reviewed, those with balances over £23K and those with balances between £16K and £23K. In the first category there were 16 clients initially requiring review. 3 recently passed away, 9 to be passed to Deputyship (HCC), 1 to be passed to family deputyship, 1 client account fallen below £23K leaving 2 outstanding. Of the second category, there were 43 clients to be reviewed of which 20 reviews are outstanding.
22	Charging policy	Seek legal advice about process to be followed. Research charging policies elsewhere. Discuss links to potential consultation ASC charging policies. Produce accompanying Equality and Safety Impact Assessment (ESIA).	Vanessa Shahani	30/09/2021		Legal advice sought and consultation process confirmed. Discussions with ASC Transformation Lead and agreed to include charging for appointeeships as part of wider ASC charging consultation. Research carried out into charging models of other authorities. Business case for charging in progress - can only be finalised when outcome of independent review known.
23	Implementation plan	Produce and agree implementation plan with key internal stakeholders, seeking advice as necessary e.g. HR, Legal	Vanessa Shahani	30/09/2021		Discussions will need to ensure necessary alignment with Adult Social Care transformation

24	Charging policy	Seek legal advice about process to be followed. Research charging policies elsewhere. Discuss links to potential consultation ASC charging policies.	Vanessa Shahani	30/09/2021		Legal advice sought and consultation process confirmed. Discussions with ASC Transformation Lead and agreed to include charging for appointeeships as part of wider ASC charging consultation. Research carried out into charging models of other authorities. Business case for charging in progress - can only be finalised when outcome of independent review known.
25	Change activity	Deliver implementation plan	Vanessa Shahani/Jo Chapman	tbc		Detail dependent on output independent review.
26	Implementation case management system	Market appraisal, procure system, test, train staff, go live	Jo Chapman	31/05/2022		Funding approved via council's IT plan; at market appraisal stage

Action Reference	Issue	Action Agreed	Responsible person	Action by date	Current status of Action (RAG)
1	Inconsistent address data	Update with same addresses as Water Quality Contractors	Service Manager, Asset Management	Complete	
2	Outstanding Risk Assessments	Complete outstanding Risk Assessments	Senior M&E Team Leader	End of July 2021	
3	Not all properties included on the monitoring schedule	Add all properties to the monitoring schedule	Senior M&E Team Leader	Complete	
4	Faults identified not forwarded to Property Service	Forward all identified faults to the Property Service	Head of Commercialisation/ Contract Manager	Complete	
5	Incomplete log book reviews	To complete 20% checks of log books annually	Senior M&E Team Leader/ Technical administrator	Ongoing	
6	Not all fault sheets sent to the technical administrator	A temperature monitoring sheet will be sent in weekly with fault sheet number so remedial works can be monitored.	Senior M&E Team Leader/ Technical administrator	Ongoing	
7	Testing highlighted that there is not a central register of responsibilities or water quality training and qualifications in place	<p>This has been discussed at the H&S board, for resolution across the Authority. Property Services staff and Housing Operations Water Quality Managers have refresher training booked for 28 July 2021.</p> <p>Following an internal review, there are a number of actions which are being planned for Water Quality specifically, and Compliance related activities generally. Part of this includes provision of a training regime for all relevant staff, to ensure that they have the right competencies to deliver the service.</p>	Service Manager, Asset Management/ Head of Property/Senior M&E Team Leader	30/09/2021	

		The responsible person register was discussed at the Health and Safety Board Meeting of the 24/06/21. An action has been raised for the relevant officers from the property division to draw up a responsible person list.			
8	Incomplete property schedule provided to Contractors	A property audit will be completed by Property Division for the Corporate & Housing portfolios, to ensure that a comprehensive property schedule is provided to Freeston and Housing Operations.	Service Manager, Asset Management	Complete	
9	Not possible to confirm the status of 16/19 remedial works	A trail of the use of Tech Forge (Water Quality Management Software) has begun with the aim of improving visibility and remedial monitoring across all teams. Trial follow up meetings have been planned to monitor data input progress and resolve any issues.	Senior M&E Team Leader/ Technical administrator	31/10/2021	
10	No contract in place for temperature monitoring, risk assessments and some remedial work for properties	The procurement process has been delayed and will go out to tender by the end July 2021, as the tender documents will be reviewed as part of the internal compliance review by Ridge, before being finalised. There will be a separate tender for the Risk Assessment programme and for the servicing and inspection process. The length of contract will also be reassessed with the Ridge Team, Procurement and the Property Division.	Service Manager, Asset Management	End of July 2021	

11	The WQMG are not achieving their primary objective, to provide assurance on water quality.	Follow up testing confirmed that the WQMG Terms of Reference had been reviewed by the Service Manager - Health, Safety and Employee Wellbeing and were found to be accurate. A WQMG meeting was held on the 24/06/21 at which terms of reference and future information reporting was discussed and agreed.	Service Manager for Health, Safety and Employee Wellbeing	Complete	
12	Testing highlighted that the Authority's current Combined Policy and Safe Working Procedure was last reviewed in August 2017	Update and publish the Combined Policy and Safe Working Procedure	Service Manager for Health, Safety and Employee Wellbeing	Complete	

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DECISION-MAKER:	GOVERNANCE COMMITTEE		
SUBJECT:	REVIEW OF PRUDENTIAL LIMITS AND TREASURY MANAGEMENT OUTTURN 2020/21		
DATE OF DECISION:	26 JULY 2021		
REPORT OF:	EXECUTIVE DIRECTOR FINANCE & COMMERCIALISATION (S151 Officer)		
<u>CONTACT DETAILS</u>			
AUTHOR:	Name:	Steve Harrison, Head of Financial Planning & Management	Tel: 023 8083 4153
	E-mail:	steve.harrison@southampton.gov.uk	
Director	Name:	John Harrison, Executive Director, Finance & Commercialism	Tel: 023 8083 4897
	E-mail:	john.harrison@southampton.gov.uk	

STATEMENT OF CONFIDENTIALITY	
NOT APPLICABLE	
BRIEF SUMMARY	
The purpose of this report is to inform Governance Committee of the Treasury Management activities and performance for 2020/21 against the approved Prudential Indicators for External Debt and Treasury Management.	
RECOMMENDATIONS:	
It is recommended that Governance committee:	
(i)	Notes the Treasury Management (TM) activities for 2020/21 and the outturn on the Prudential Indicators.
(ii)	Notes that the continued proactive approach to TM has led to reductions in borrowing costs and safeguarded investment income during the year.
(iii)	Continues to delegate authority to the S151 Officer to make any future changes which benefit the authority and to report back at the next Treasury update.
REASONS FOR REPORT RECOMMENDATIONS	
1.	The reporting of the outturn position for 2020/21 forms part of the approval of the statutory accounts. The Treasury Management (TM) Strategy and Prudential Indicators are approved by Governance Committee in February each year in accordance with legislation and the Chartered Institute of Public Finance & Accountancy (CIPFA) Code of Practice.
2.	The Treasury Management Code requires public sector authorities to determine an annual TM Strategy and now, as a minimum, formally report on their treasury activities and arrangements to Governance Committee mid-year and after the year-end. These reports enable those tasked with implementing policies and undertaking transactions to demonstrate they have properly fulfilled their responsibilities and enable those with ultimate

	responsibility/governance of the TM function to scrutinise and assess its effectiveness and compliance with policies and objectives.
ALTERNATIVE OPTIONS CONSIDERED AND REJECTED	
3.	No alternative options are relevant to this report.
DETAIL (Including consultation carried out)	
CONSULTATION	
4.	Not applicable.
BACKGROUND	
5.	The Local Government Act 2003 introduced a system for borrowing based largely on self-regulation by local authorities themselves. The basic principle of the new system is that local authorities will be free to borrow as long as their capital spending plans are affordable, prudent and sustainable.
6.	The Chartered Institute of Public Finance and Accountancy's Treasury Management Code (CIPFA's TM Code) requires that authorities report on the performance of the treasury management function at least twice a year (mid-year and at year end).
7.	The Authority's TM Strategy for 2020/21 was approved by Governance Committee on 10 February 2020. These were subsequently reviewed and revised as part of the Council's Treasury Management Strategy Statement for 2021/22 at Governance Committee on 15 February 2021. The 2017 Prudential Code includes a requirement for local authorities to provide a Capital Strategy, a summary document approved by full Council covering capital expenditure and financing, treasury management and non-treasury investments. The Authority's Capital Strategy, complying with CIPFA's requirement, was approved by full Council on 24 February 2021.
8.	Overall responsibility for treasury management remains with the Council. No TM activity is without risk; the effective identification and management of risk are integral to the Council's treasury management objectives. The Authority has borrowed and invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. This report covers treasury activity and the associated monitoring and control of risk.
9.	This report:
	a) is prepared in accordance with the revised CIPFA Treasury Management Code and the revised Prudential Code;
	b) presents details of capital financing, borrowing, debt rescheduling and investment transactions;
	c) reports on the risk implications of treasury decisions and transactions;
	d) gives details of the outturn position on treasury management transactions in 2020/21; and
	e) confirms compliance with treasury limits and Prudential Indicators.
10.	The report and appendices highlight that:
	a) Borrowing activities have been undertaken within the borrowing limits approved by Governance Committee on 10 February 2020 and

		reviewed on 15 February 2021.
	b)	There has been full compliance with the Prudential Indicators approved by Governance Committee on 10 February 2020 and reviewed on 15 February 2021.
	c)	<p>As we have an increasing borrowing requirement our overall treasury strategy is to minimise both external borrowing and investments and to only borrow to the level of its net borrowing requirement. The reasons for this are to reduce credit risk, take pressure off the Council's lending list and also to avoid the cost of carry existing in the current interest rate environment.</p> <p>Throughout the year, capital expenditure levels, market conditions and interest rate levels were monitored to minimise borrowing costs over the medium to longer term and to maintain stability.</p>
	d)	<p>For longer term investments the Council aims to continue to diversify into more secure and/or higher yielding asset classes.</p> <p>Total Investment returns during 2020/21 were £1.4M at an average rate of 3.85%.</p>
	e)	<p>The differential between debt costs and investment earnings continued to be acute, resulting in the use of internal resources in lieu of borrowing often being the most cost effective means of financing capital expenditure.</p> <p>As a result, the average rate for repayment of debt, (the Consolidated Loans & Investment Account Rate – CLIA), at 2.75%, is lower than that budgeted and lower than last year (2.84%), this is as a result of no new long term borrowing being taken in year.</p> <p>This includes short term debt which was taken during the year, which averaged 1%. It is the intention to continue to borrow in the short term markets during 2021/22 to take further advantage of the current interest environment.</p>
	f)	<p>Since 2012, the Council has pursued a strategy of internal borrowing – minimising external borrowing by running down its own investment balances and only borrowing short term to cover cash flow requirements. This has both reduced the credit risk exposure and saved the Council money in terms of net interest costs.</p> <p>If opportunities arise long term borrowing would be considered as demonstrated during 2019/20 when the benchmark gilt rates for PWLB loans fell to historic lows and a £90M 15 year EIP (Equal Instalment Payment) loan was taken at 1.12% to secure this advantageous rate and add some certainty to the debt portfolio.</p>
	g)	In achieving interest rate savings the Council is exposed to interest rate risk by taking out variable debt. This was and continues to be very financially favourable in current markets but does mean that close monitoring of the markets is required to ensure that the Council can act quickly should the situation begin to change.
	h)	<p>Net loan debt decreased during 2020/21 from £284M to £247M (£37M) as detailed in Appendix 2, paragraph 5.</p> <p>Actual debt charges for the year for borrowing (excluding HCC transferred debt and PFI schemes) was £7.2M at an average interest rate of 2.78%</p>

	i)	<p>The coronavirus pandemic dominated 2020/21. The initial reaction to the COVID crisis in March 2020 meant that short term liquidity became difficult, however, after the initial uncertainty the markets returned to a more 'normal' position, with increased willingness for lending to counterparties, although continued downward pressure on short-dated cash rate brought net returns close to zero even after some managers have temporarily lowered their fees. At this stage net negative returns are not the central case of most MMF managers over the short-term, and fee waivers should maintain positive net yields, but the possibility cannot be ruled out.</p> <p>Government has also continued to assist cash flow by providing up front funding as far as possible, both in terms of the grants to businesses administered by the Council on its behalf and the funding to the local authority itself (under the business rates retention scheme). As a result of this grant funding year end investment balances were higher than expected and borrowing lower.</p>																					
	j)	<p>The impact of COVID-19 will continue during the current financial year and will be reported as part of the quarterly monitoring reports and as part of the mid-year report.</p>																					
11.	Appendix 1 summarises the economic outlook and events in the context of which the Council operated its treasury function during 2020/21.																						
12.	<p>Appendix 2 summarises treasury activity during the year and covers:</p> <ul style="list-style-type: none"> • Borrowing Requirement and Debt Management • Investment Activity • Non – Treasury Investments 																						
COMPLIANCE WITH PRUDENTIAL INDICATORS																							
13.	It can be confirmed that the Council has complied with its Prudential Indicators for 2020/21, approved by Governance Committee on 10 February 2020 and reviewed on 15 February 2021.																						
14.	<p>In compliance with the requirements of the CIPFA Code of Practice this report provides members with a summary report of TM activity during 2020/21. None of the Prudential Indicators has been breached and a prudent approach has been taken in relation to investment activity with priority being given to security and liquidity over yield. The table below summarises the Key Indicators, further details can be seen in appendix 3.</p>																						
15.	<p>Table 1: Key Prudential Indicators</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="text-align: left;">Indicator</th> <th style="text-align: center;">Limit</th> <th style="text-align: center;">Actual at 31/3/2021</th> </tr> </thead> <tbody> <tr> <td>Authorised Limit for external debt £M</td> <td style="text-align: center;">£770M</td> <td style="text-align: center;">£306M</td> </tr> <tr> <td>Operational Limit for external debt £M</td> <td style="text-align: center;">£730M</td> <td style="text-align: center;">£306M</td> </tr> <tr> <td>Maximum external borrowing in year</td> <td style="text-align: center;">£770M</td> <td style="text-align: center;">£242M</td> </tr> <tr> <td>Limit of fixed interest debt %</td> <td style="text-align: center;">100%</td> <td style="text-align: center;">81%</td> </tr> <tr> <td>Limit of variable interest debt %</td> <td style="text-align: center;">50%</td> <td style="text-align: center;">19%</td> </tr> <tr> <td>Limit for Long Term Investments £M</td> <td style="text-align: center;">£100M</td> <td style="text-align: center;">£30M</td> </tr> </tbody> </table>		Indicator	Limit	Actual at 31/3/2021	Authorised Limit for external debt £M	£770M	£306M	Operational Limit for external debt £M	£730M	£306M	Maximum external borrowing in year	£770M	£242M	Limit of fixed interest debt %	100%	81%	Limit of variable interest debt %	50%	19%	Limit for Long Term Investments £M	£100M	£30M
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Limit for Long Term Investments £M	£100M	£30M																					
RESOURCE IMPLICATIONS																							
<u>Capital/Revenue</u>																							

16.	This report is a requirement of the TM Strategy, which was approved at Council on 15 February 2021.
17.	The interest cost of financing the Authority's long term and short term loan debt is charged corporately to the Income and Expenditure account. The interest cost of financing the Authority's loan debt amounted to £7.21M in 2020/21. This is lower than budgeted mainly due to variable interest rates being lower than those estimated and no new long term borrowing being taken at preferential rates.
18.	In addition, interest earned on temporary balances invested externally is credited to the Income and Expenditure account. In 2020/21 £1.4M was earned which was slightly higher than budgeted £1.3M mainly due to higher than expected balances.
19.	The expenses of managing the Authority's loan debt consist of brokerage and internal administration charges. These are pooled and borne by the HRA and General Fund proportionately to the related loan debt. Debt management expenses amounted to £0.16M in 2020/21.
<u>Property/Other</u>	
20.	None.
LEGAL IMPLICATIONS	
<u>Statutory power to undertake proposals in the report:</u>	
21.	Local Authority borrowing is regulated by Part 1, of the Local Government Act 2003, which introduced the new Prudential Capital Finance System. From 1 April 2004, investments are dealt with, not in secondary legislation, but through guidance. Similarly, there is guidance on prudent investment practice, issued by the Secretary of State under Section 15(1)(a) of the 2003 Act. A local authority has the power to invest for "any purpose relevant to its functions under any enactment or for the purposes of the prudent management of its financial affairs". The reference to the "prudent management of its financial affairs" is included to cover investments, which are not directly linked to identifiable statutory functions but are simply made in the course of treasury management. This also allows the temporary investment of funds borrowed for the purpose of expenditure in the reasonably near future; however, the speculative procedure of borrowing purely in order to invest and make a return remains unlawful.
<u>Other Legal Implications:</u>	
22.	None.
RISK MANAGEMENT IMPLICATIONS	
23.	Not Applicable
POLICY FRAMEWORK IMPLICATIONS	
24.	This report has been prepared in accordance with the CIPFA Code of Practice on TM.
KEY DECISION?	Yes/No
WARDS/COMMUNITIES AFFECTED:	NONE

<u>SUPPORTING DOCUMENTATION</u>		
Appendices		
1.	2020/21 Economic Background	
2.	Treasury Activity during 2020/21	
3.	Southampton Benchmarking 31 st March 2021	
4.	Compliance with Prudential Indicators	
5.	Glossary of Treasury Terms	
Documents In Members' Rooms		
1.	None.	
Equality Impact Assessment		
Do the implications/subject of the report require an Equality and Safety Impact Assessments (ESIA) to be carried out.		Yes/No
Privacy Impact Assessment		
Do the implications/subject of the report require a Privacy Impact Assessment (PIA) to be carried out.		Yes/No
Other Background Documents		
Equality Impact Assessment and Other Background documents available for inspection at:		
	Title of Background Paper(s)	Relevant Paragraph of the Access to Information Procedure Rules / Schedule 12A allowing document to be Exempt/Confidential (if applicable)
1.	The Medium Term Financial Strategy, Budget Capital Programme 2020/21 to 2025/26 – reported to Council 24 February 2021	

External Factors Impacting on Treasury during 2020/21

A summary of the external factors in 2020-21 is provided by the council's treasury advisor, Arlingclose Ltd, and is detailed below.

Economic background; The coronavirus pandemic dominated 2020/21, leading to almost the entire planet being in some form of lockdown during the year. The start of the financial year saw many central banks cutting interest rates as lockdowns caused economic activity to grind to a halt. The Bank of England cut Bank Rate to 0.1% and the UK government provided a range of fiscal stimulus measures, the size of which has not been seen in peacetime.

Some good news came in December 2020 as two COVID-19 vaccines were given approval by the UK Medicines and Healthcare products Regulatory Agency (MHRA). The UK vaccine rollout started in earnest; over 31 million people had received their first dose by 31st March.

A Brexit trade deal was agreed with only days to spare before the 11pm 31st December 2020 deadline having been agreed with the European Union on Christmas Eve.

The Bank of England (BoE) held Bank Rate at 0.1% throughout the year but extended its Quantitative Easing programme by £150 billion to £895 billion at its November 2020 meeting. In its March 2021 interest rate announcement, the BoE noted that while GDP would remain low in the near-term due to COVID-19 lockdown restrictions, the easing of these measures means growth is expected to recover strongly later in the year. Inflation is forecast to increase in the near-term and while the economic outlook has improved there are downside risks to the forecast, including from unemployment which is still predicted to rise when the furlough scheme is eventually withdrawn.

Government initiatives supported the economy and the Chancellor announced in the 2021 Budget a further extension to the furlough (Coronavirus Job Retention) scheme until September 2021. Access to support grants was also widened, enabling more self-employed people to be eligible for government help. Since March 2020, the government schemes have help protect more than 11 million jobs.

Despite the furlough scheme, unemployment still rose. Labour market data showed that in the three months to January 2021 the unemployment rate was 5.0%, in contrast to 3.9% recorded for the same period 12 months ago. Wages rose 4.8% for total pay in nominal terms (4.2% for regular pay) and was up 3.9% in real terms (3.4% for regular pay). Unemployment is still expected to increase once the various government job support schemes come to an end.

Inflation has remained low over the 12 month period. Latest figures showed the annual headline rate of UK Consumer Price Inflation (CPI) fell to 0.4% year/year in February, below expectations (0.8%) and still well below the Bank of England's 2% target. The ONS' preferred measure of CPIH which includes owner-occupied housing was 0.7% year/year (1.0% expected).

After contracting sharply in Q2 (Apr-Jun) 2020 by 19.8% q/q, growth in Q3 and Q4 bounced back by 15.5% and 1.3% respectively. The easing of some lockdown measures in the last quarter of the calendar year enabled construction output to continue, albeit at a much slower pace than the 41.7% rise in the prior quarter. When released, figures for Q1 (Jan-Mar) 2021 are expected to show a decline given the national lockdown.

After collapsing at an annualised rate of 31.4% in Q2, the US economy rebounded by 33.4% in Q3 and then a further 4.1% in Q4. The US recovery has been fuelled by three major pandemic relief stimulus packages totalling over \$5 trillion. The Federal Reserve cut its main interest rate to between 0% and

0.25% in March 2020 in response to the pandemic and it has remained at the same level since. Joe Biden became the 46th US president after defeating Donald Trump.

The European Central Bank maintained its base rate at 0% and deposit rate at -0.5% but in December 2020 increased the size of its asset purchase scheme to €1.85 trillion and extended it until March 2022.

Financial markets: Monetary and fiscal stimulus helped provide support for equity markets which rose over the period, with the Dow Jones beating its pre-crisis peak on the back of outperformance by a small number of technology stocks. The FTSE indices performed reasonably well during the period April to November, before being buoyed in December by both the vaccine approval and Brexit deal, which helped give a boost to both the more internationally focused FTSE 100 and the more UK-focused FTSE 250, however they remain lower than their pre-pandemic levels.

Ultra-low interest rates prevailed throughout most of the period, with yields generally falling between April and December 2020. From early in 2021 the improved economic outlook due to the new various stimulus packages (particularly in the US), together with the approval and successful rollout of vaccines, caused government bonds to sell off sharply on the back of expected higher inflation and increased uncertainty, pushing yields higher more quickly than had been anticipated.

The 5-year UK benchmark gilt yield began the financial year at 0.18% before declining to -0.03% at the end of 2020 and then rising strongly to 0.39% by the end of the financial year. Over the same period the 10-year gilt yield fell from 0.31% to 0.19% before rising to 0.84%. The 20-year declined slightly from 0.70% to 0.68% before increasing to 1.36%.

1-month, 3-month and 12-month SONIA bid rates averaged 0.01%, 0.10% and 0.23% respectively over the financial year.

The yield on 2-year US treasuries was 0.16% at the end of the period, up from 0.12% at the beginning of January but down from 0.21% at the start of the financial year. For 10-year treasuries the end of period yield was 1.75%, up from both the beginning of 2021 (0.91%) and the start of the financial year (0.58%).

German bund yields continue to remain negative across most maturities.

Credit review: After spiking in March 2020, credit default swap spreads declined over the remaining period of the year to broadly pre-pandemic levels. The gap in spreads between UK ringfenced and non-ringfenced entities remained, albeit Santander UK is still an outlier compared to the other ringfenced/retail banks. At the end of the period Santander UK was trading the highest at 57bps and Standard Chartered the lowest at 32bps. The other ringfenced banks were trading around 33 and 34bps while Nationwide Building Society was 43bps.

Credit rating actions to the period ending September 2020 have been covered in previous outturn reports. Subsequent credit developments include Moody's downgrading the UK sovereign rating to Aa3 with a stable outlook which then impacted a number of other UK institutions, banks and local government. In the last quarter of the financial year S&P upgraded Clydesdale Bank to A- and revised Barclay's outlook to stable (from negative) while Moody's downgraded HSBC's Baseline Credit Assessment to baa3 whilst affirming the long-term rating at A1.

The vaccine approval and subsequent rollout programme are both credit positive for the financial services sector in general, but there remains much uncertainty around the extent of the losses banks and building societies will suffer due to the economic slowdown which has resulted due to pandemic-related lockdowns and restrictions. The institutions and durations on the Authority's counterparty list

recommended by treasury management advisors Arlingclose remain under constant review, but at the end of the period no changes had been made to the names on the list or the recommended maximum duration of 35 days.

Forecast interest Rates

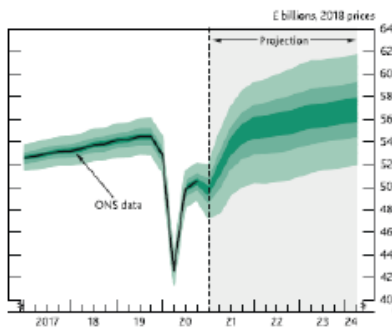
The following forecast interest forecast are set against a background of:

- Arlingclose expects Bank Rate to remain at the current 0.10% level. The risk of movement in Bank Rate in the short term is low.
- Gilt yields could continue to increase in the short term, but will begin to plateau and reduce once the market's expectation of rises in Bank Rate and inflation fears subside.
- Longer term yields may face upward pressure towards the end of our forecast period as the economy moves back to a sustained footing and policy expectations start to strengthen.
- Downside risks remain – the damage from the pandemic will have lasting effects and there is the risk of further virus mutations due to the uneven global rollout of vaccines. Downside risks also arise from potential future vaccine shortages as the global demand for vaccines increases

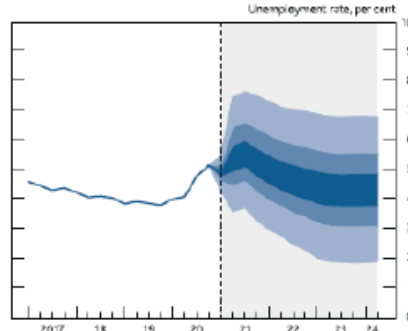
	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24
Official Bank Rate													
Upside risk	0.00	0.15	0.15	0.15	0.15	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30
Arlingclose Central Case	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
Downside risk	0.10	0.10	0.15	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20
3-month money market rate													
Upside risk	0.05	0.10	0.10	0.15	0.20	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30
Arlingclose Central Case	0.10	0.10	0.15	0.20	0.20	0.15	0.15	0.15	0.15	0.15	0.15	0.15	0.15
Downside risk	0.15	0.15	0.20	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25
5yr gilt yield													
Upside risk	0.40	0.45	0.45	0.50	0.50	0.55	0.60	0.60	0.60	0.65	0.65	0.70	0.70
Arlingclose Central Case	0.45	0.50	0.50	0.45	0.40	0.40	0.35	0.35	0.40	0.40	0.45	0.45	0.50
Downside risk	0.20	0.25	0.25	0.35	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40
10yr gilt yield													
Upside risk	0.35	0.40	0.45	0.50	0.50	0.55	0.60	0.60	0.65	0.65	0.70	0.70	0.70
Arlingclose Central Case	0.95	1.00	1.00	0.95	0.90	0.85	0.80	0.80	0.80	0.85	0.90	0.95	1.00
Downside risk	0.25	0.25	0.35	0.35	0.40	0.40	0.40	0.45	0.45	0.50	0.50	0.50	0.50
20yr gilt yield													
Upside risk	0.40	0.45	0.45	0.45	0.50	0.55	0.60	0.60	0.65	0.65	0.70	0.70	0.70
Arlingclose Central Case	1.30	1.35	1.30	1.30	1.25	1.25	1.25	1.25	1.25	1.25	1.30	1.30	1.35
Downside risk	0.30	0.35	0.40	0.45	0.45	0.45	0.50	0.50	0.50	0.50	0.50	0.50	0.50
50yr gilt yield													
Upside risk	0.40	0.45	0.45	0.50	0.50	0.55	0.60	0.60	0.65	0.65	0.70	0.70	0.70
Arlingclose Central Case	1.25	1.25	1.20	1.20	1.15	1.15	1.15	1.15	1.20	1.15	1.20	1.20	1.25
Downside risk	0.30	0.35	0.35	0.35	0.40	0.40	0.45	0.50	0.50	0.50	0.50	0.50	0.50

BoE Monetary Policy Report - May 2021

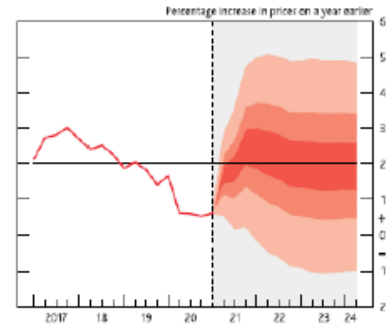
Outlook for UK GDP



Outlook for UK Unemployment



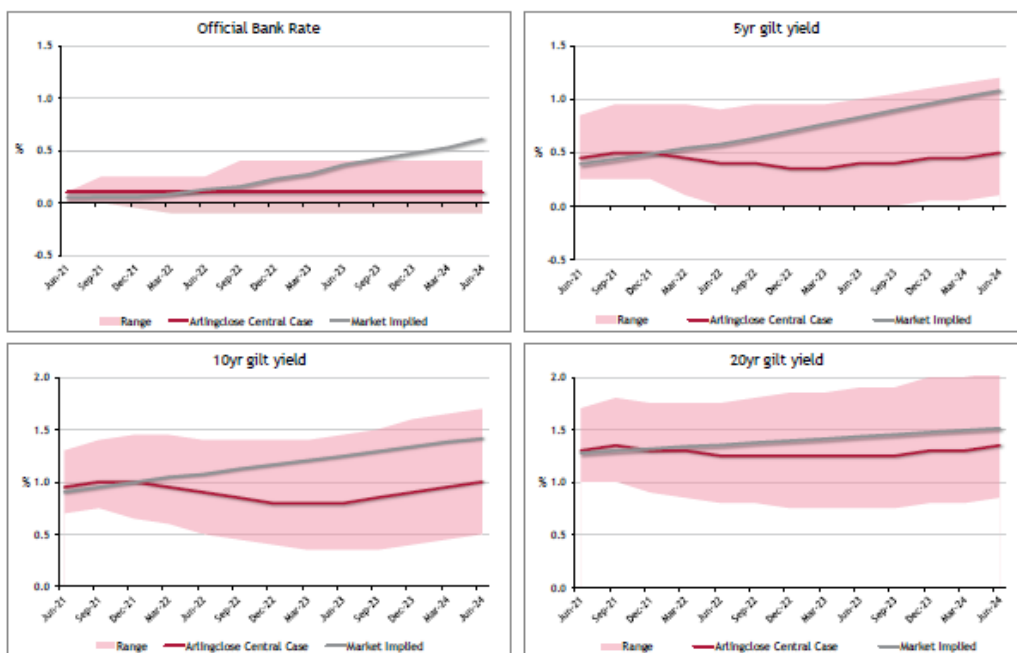
Outlook for UK CPI inflation



- The vaccination programme is proceeding apace, and restrictions on economic activity are easing. Reflecting these developments, GDP is expected to rise sharply in 2021 Q2, although activity in Q2 is likely to remain around 5% below its level in 2019 Q4. GDP is expected to recover strongly to pre-Covid levels over the remainder of this year in the absence of most restrictions on domestic economic activity.
- The weakness of recent CPI outturns has largely reflected the direct and indirect effects of Covid on the economy. Inflation is projected to rise to close to the target in the near term as some of those effects fade. In the central projection, CPI inflation rises temporarily above the 2% target towards the end of 2021, owing mainly to developments in energy prices. These transitory developments should have few direct implications for inflation over the medium term, however and CPI returns to around 2% in the medium term.
- The extension of the Government's employment support schemes in Budget 2021 is expected to limit significantly the near-term rise in the unemployment rate. The MPC also expects the medium-term equilibrium rate of unemployment to rise by less than was forecast in February.
- It is worth noting the huge uncertainty surrounding the projections provided by the MPC, demonstrated in the large upside and downside risks on the fan charts. The future progression of the pandemic, potential further measures undertaken to slow the spread of the virus and lower trade with the EU in the medium term are just some of the potential factors that could hamper inflation going forward.

Charts show the Arlingclose central case along with upside and downside risks: Arlingclose judges that the risk around the Bank Rate forecast is broadly balanced, while the risks around the gilt yield forecast are weighed to the upside.

PWLB Standard Rate (Maturity Loans) = Gilt yield + 1.00%
 PWLB Certainty Rate (Maturity Loans) = Gilt yield + 0.80%
 PWLB Infrastructure Rate (Maturity Loans) = Gilt yield + 0.60%



TREASURY MANAGEMENT ACTIVITY DURING 2020/21		Appendix 2		
BORROWING REQUIREMENT AND DEBT MANAGEMENT				
1.	On the 31st March 2021, the Authority had a reduction in its net borrowing need of £67M arising from its revenue and capital income and expenditure. The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR) while useable reserves and working capital the underlying resources available for investments. These are the core drivers of TM Activity and the year-on-year change is summarised in table 1 below.			
2.	The Authority's current strategy, as we have an increasing borrowing requirement, is to minimise both external borrowing and investments and to only borrow to the level of the net borrowing requirement. The reasons for this are to reduce credit risk, take pressure off the Council's lending list and also to avoid the cost of carry existing in the current interest rate environment. This has resulted in an increase of our internal borrowing of £36.3M for 20/21 from £163.65M to £199.92M.			
Table 1 – Balance Sheet Summary				
	31-Mar-20	31-Mar-21	31-Mar-21	31-Mar-21
	Actual	Strategy	Actual	Movement
	£M	£M	£M	in year
				£M
General Fund CFR	339.58	349.95	337.18	(12.77)
Housing CFR	169.13	177.48	169.13	(8.35)
Total CFR	508.71	527.43	506.31	(21.12)
Less Other Debt Liabilities*	(67.83)	(64.44)	(64.44)	0.00
Loans CFR	440.88	462.99	441.87	(21.12)
Less External Borrowing**	(277.23)	(231.59)	(241.95)	(10.36)
Internal (over) Borrowing	163.65	231.40	199.92	(31.48)
Less Usable Reserves	(174.55)	(178.40)	(208.52)	(30.12)
Less Working Capital Surplus	(58.01)	(58.01)	(58.29)	(0.28)
New Borrowing or (Investments)	(68.91)	(5.01)	(66.89)	(61.88)
<i>* finance leases, PFI liabilities and Transferred debt that form part of the authority's total debt</i>				
3.	The forecast movement in coming years is one of the Prudential Indicators (PIs). When the strategy was updated in February 2021, the CFR for 31 March 2021 was estimated at £527.43M, the Council's actual CFR at the end of the year was £506.31M. This decrease (£20.12M) was due to slippage in borrowing on the capital programme, £12.77M on the General Fund and £8.35M on HRA. In addition, external borrowing was £10.36M less and usable reserves and working balances were £30.14M higher than expected (but are expected to be utilised during 21/22) resulting in our need to borrow being reduced by £61.89M in year.			
Actual Movement in year is shown in the following table.				

Table 2 – Capital Financing Requirement Movement in year

Capital Financing Requirement	31/03/2020	31/03/2021	31/03/2021	31-Mar-21
	Actual	Forecast Revised Strategy	Actual	Movement since last reported position
	£M	£M	£M	£M
Balance Brought forward	334.02	339.58	339.58	0.00
New Borrowing	17.26	20.28	7.51	(12.77)
MRP	(6.06)	(6.50)	(6.50)	0.00
Appropriations (to) from HRA	(2.40)	0.00	0.00	0.00
Movement in Other Liabilities	(3.24)	(3.41)	(3.41)	0.00
Total General Fund Debt	339.58	349.95	337.18	(12.77)
HRA	169.13	177.48	169.13	(8.35)
Total CFR	508.71	527.43	506.31	(21.12)
Estimated Debt (<i>see below for breakdown</i>)	345.07	359.90	306.39	(53.51)
Under / (Over) Borrowed	163.64	167.53	199.92	32.39

NB "MRP" in the table = Minimum Revenue Provision – a provision for repayment of loans

4. The movement in actual external debt and usable reserves combine to identify the Authority's borrowing requirement and potential investment strategy in the current and future years.
- Replacement of maturing debt was deferred due to the increase in reserves and a corresponding reduction in our net borrowing need. This is shown in the tables below together with activity in the year.

5. **Table 3: Borrowing and Investment Position**

	31-Mar-20 Actual £M	31-Mar-20 Average Yield / Rate %	31-Mar-21 Actual £M	31-Mar-21 Average Yield / Rate %	31-Mar-22 Estimated Balance £M
Long Term Borrowing					
Public Works Loan	257.87	3.30	222.59	2.72	388.85
LOBO Loans from Banks	9.00	4.86	9.00	4.86	9.00
	266.87	3.36	231.59	2.75	397.85
Short Term Borrowing					
Other Local Authorities	10.00	0.75	10.00	0.28	10.00
Other	0.36		0.36	0.28	
Total External Borrowing	277.23	3.03	241.95	2.75	407.85
Other Long Term Liabilities					
PFI Schemes	54.00	8.82	50.97	9.16	47.52
Deferred Debt Charges (HCC)	13.83	2.61	13.47	2.13	13.10
Total Gross External Debt	345.06	4.08	306.39	3.78	468.46
Investments:					
Managed In-House					
Cash (Instant access)	(31.22)	0.77	(30.13)	0.01	(10.00)
Long Term Bonds	(3.17)	5.30	(3.17)	5.30	(3.00)
Managed Externally					
Pooled Funds (CCLA)	(26.76)	4.40	(26.57)	4.16	(27.02)
Total Investments	(61.15)	4.03	(59.87)	4.26	(40.02)
Net Debt	283.91		246.52		428.44

6. **Table 4: Movement in Borrowing during the year**

Movement during the year	2019/20	31-Mar-21	2020/21	Average Life
	Actual £M	Movement £M	Actual £M	
Long-term borrowing Carried Forward	206.34		266.87	
Maturities in year	(39.47)		(35.29)	
New borrowing taken in year	100.00		0.00	
Net Long Term Borrowing	266.87	(35.29)	231.59	21 Years
Short-term borrowing Carried Forward	40.36		10.36	
Maturities in year	(54.00)		40.00	
New borrowing taken in year	24.00		(40.00)	
Net Short Term Borrowing	10.36	0.00	10.36	2 Months
Total Borrowing at 31st March	277.23	(35.29)	241.95	

Please note that these figures do not reflect the accounting convention of moving loans maturing in the year from long term to short term so will differ from the maturity analysis.

7. The maturity analysis of the Council's debt at 31 March 2021 is further analysed below. Debt due in one year includes both short term and long term loans due in year, LOBO loans are shown as uncertain as although they are within the call option they are unlikely to be called in the current interest environment.

8. **Table 5: Maturity Structure of Borrowing**

Total Financial Liabilities	Outstanding 31 March 2021	% of Total Portfolio
	£M	%
Source of Loan		
Public Works Loan Board	222.59	92
Other Financial Institutions (borrowing)	19.36	8
	241.95	100
Analysis of Loans by Maturity		
Less than 1 Year	19.10	8
Between 1 and 2 years	6.00	2
Between 2 and 5 years	18.00	7
Between 5 and 10 years	30.00	12
Between 10 and 20 years	31.00	13
Between 20 and 40 years	124.60	51
Over 40	4.25	2
Uncertain Date**	9.00	4
	241.95	100

Borrowing Update

9. In November 2020 the PWLB published its response to the consultation on 'Future Lending Terms'. From 26th November the margin on PWLB loans above gilt yields was reduced from 1.8% to 0.8% providing that the borrowing authority can confirm that it is not planning to purchase 'investment assets primarily for yield' in the current or next two financial years. Authorities that are purchasing or intending to purchase

	<p>investment assets primarily for yield will not be able to access the PWLB except to refinance existing loans or externalise internal borrowing. As part of the borrowing process authorities will now be required to submit more detailed capital expenditure plans with confirmation of the purpose of capital expenditure from the Section 151 / Section 95 Officer. The PWLB can now also restrict local authorities from borrowing in unusual or large amounts.</p> <p>Acceptable use of PWLB borrowing includes service delivery, housing, regeneration, preventative action, refinancing and treasury management. Misuse of PWLB borrowing could result in the PWLB requesting that Authority unwinds problematic transactions, suspending access to the PWLB and repayment of loans with penalties.</p> <p>Competitive market alternatives may be available for authorities with or without access to the PWLB. However, the financial strength of the individual authority and borrowing purpose will be scrutinised by commercial lenders.</p> <p>Following a review of the capital programme the Authority is not planning to purchase any investment assets primarily for yield within the next three years and so is able to take advantage of the reduction in the PWLB borrowing rate.</p>
10.	<p>Municipal Bonds Agency (MBA): The MBA revised its standard loan terms and framework agreement. Guarantees for the debt of other borrowers are now proportional and limited and a requirement to make contribution loans in the event of a default by a borrower has been introduced. The agency has issued 5-year floating rate and 40-year fixed rate bonds in 2020, in both instances Lancashire County Council is the sole borrower and guarantor. A planned third bond issuance by Warrington Borough Council was withdrawn in early December after the reduction in PWLB borrowing rates.</p> <p>If the Authority intends future borrowing through the MBA, it will first ensure that it has thoroughly scrutinised the legal terms and conditions of the arrangement and is satisfied with them.</p>
11.	<p>UK Infrastructure Bank: In his March 2021 budget the Chancellor confirmed that a UK Infrastructure Bank will be set up with £4bn in lending earmarked for local authorities from the summer of 2021. Loans will be available at gilt yield plus 0.60%, 0.20% lower than the PWLB certainty rate. A bidding process to access these loans is likely with a preference to projects likely to help the government meet its Net Zero emissions target. However other “high value and complex economic infrastructure projects” may also be considered.</p>
<p><u>Borrowing Strategy</u></p>	
12.	<p>At 31st March 2021 the Authority held £241.95M of loans, (a decrease of £35.28M since 31st March 2020), as part of its strategy for funding previous and current years’ capital programmes. Outstanding loans are summarised in Table 4 and 5 above.</p>
13.	<p>The Authority’s chief objective when borrowing has been to strike an appropriately low risk balance between securing low interest costs and achieving cost certainty over the period for which funds are required, with flexibility to renegotiate loans should the Authority’s long-term plans change being a secondary objective.</p>
14.	<p>In keeping with these objectives short term borrowing was kept to a minimum, while existing loans were allowed to mature without replacement. We have remained under our CFR limit and had internal borrowing of £199.92M at the end of the year.</p> <p>This strategy enabled the Authority to reduce net borrowing costs (despite foregone investment income) and reduce overall treasury risk.</p>

15.	The PWLB remained the Council's preferred source of long term borrowing given the transparency and control that its facilities continue to provide, however PWLB funding margins have lurched quite substantially and there remains a strong argument for diversifying funding sources, particularly if rates can be achieved on alternatives which are below gilt yields + 0.80%.
16.	Due to the continued depressed markets and the 'cost of carry' associated with long term debt, the Council deferred long term borrowing and continued to use internal resources to finance the capital programme to minimise the cost of TM by keeping debt interest payments as low as possible without compromising the longer-term stability of the portfolio.
17.	This will be kept under review during 2021/22 with the need to resource an increasing capital programme, which will be reported to Council in September and February as part of the capital review, and projected rising interest rates (although at historically low rates). The Authority with its advisor Arlingclose will evaluate and pursue options for lower cost solutions and opportunities, together with the 'cost of carry' and breakeven analysis.
18.	The Authority's borrowing decisions are not predicated on any one outcome for interest rates and a balanced portfolio of short and long term borrowing was maintained.

Lender's Option Borrower's Option Loans (LOBOs)

19.	The council continues to hold £9M of LOBO loans where the lender has the option to propose an increase in the interest rate at set dates, following which the council has the option to either accept the new rate or to repay the loan at no additional cost. All of these LOBOS had options during the year, none of which were exercised by the lender, but if they were it is likely that they would be replaced.
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Other Debt Activity

20.	Although not classed as borrowing the Council has previously raised capital finance via Private Finance Initiative (PFI). The balance at the end of the year, after allowing for repayment in year of £3.04M is £50.97M.
21.	In addition, the Authority holds debt in relation to debt transferred from Hampshire County Council on the 1 April 1997 when we became a unitary authority, of £13.46M. This is being repaid over 50 years at £0.37M per annum.

INVESTMENT ACTIVITY

22.	Both the CIPFA and DCLG's Investment Guidance requires the council to invest prudently and have regard to the security and liquidity of investments before seeking the optimum 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 income returns. Hence the activity cannot be simply measured against returns made over the year.
23.	The Authority received central government funding to support small and medium businesses during the coronavirus pandemic through grant schemes. This was invested in short-dated, liquid instruments such as call accounts and Money Market Funds until dispersed which led to higher investment balances throughout the year, although interest rates were at all-time lows averaging 0.01% for short term

	investments. The Council maintained its strategy of offsetting investment and borrowing to reduce treasury costs.																																										
24.	The council has held significant invested funds, representing income received in advance of expenditure plus balances and reserves held. During 2020/21 the council's investment balances have ranged between £53.38M and £114.07M. Movement in year is summarised in the table below:																																										
25.	<p>Table 6: Investment activity during the year</p> <table border="1"> <thead> <tr> <th></th> <th>Balance on 01/04/2020</th> <th>Investments Repaid</th> <th>New Investments</th> <th>Balance on 31/03/2021</th> <th>(Increase)/ Decrease in Investment for Year</th> <th>Average Life of Investments</th> </tr> <tr> <th></th> <th>£M</th> <th>£M</th> <th>£M</th> <th>£M</th> <th>£M</th> <th>Life</th> </tr> </thead> <tbody> <tr> <td>Multi- National Bonds (not subject to bail in)</td> <td>(3.17)</td> <td>0.01</td> <td>(0.01)</td> <td>(3.17)</td> <td>(0.00)</td> <td>1.47 years</td> </tr> <tr> <td>Money Market Funds and Call Account</td> <td>(31.22)</td> <td>431.68</td> <td>(430.59)</td> <td>(30.13)</td> <td>1.09</td> <td>1 day</td> </tr> <tr> <td>Government & Local Authority Managed Externally (CCLA Pooled funds)</td> <td>0.00 (26.76)</td> <td>208.02 0.30</td> <td>(208.02) (0.11)</td> <td>0.00 (26.57)</td> <td>0.00 0.19</td> <td>Unspecified</td> </tr> <tr> <td>Total Investments</td> <td>(61.15)</td> <td>640.01</td> <td>(638.73)</td> <td>(59.87)</td> <td>1.28</td> <td></td> </tr> </tbody> </table>		Balance on 01/04/2020	Investments Repaid	New Investments	Balance on 31/03/2021	(Increase)/ Decrease in Investment for Year	Average Life of Investments		£M	£M	£M	£M	£M	Life	Multi- National Bonds (not subject to bail in)	(3.17)	0.01	(0.01)	(3.17)	(0.00)	1.47 years	Money Market Funds and Call Account	(31.22)	431.68	(430.59)	(30.13)	1.09	1 day	Government & Local Authority Managed Externally (CCLA Pooled funds)	0.00 (26.76)	208.02 0.30	(208.02) (0.11)	0.00 (26.57)	0.00 0.19	Unspecified	Total Investments	(61.15)	640.01	(638.73)	(59.87)	1.28	
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26.	Security of capital has remained the council's main investment objective. This has been maintained by following the Authority's counterparty policy as set out in its TM Strategy Statement for 2020/21. The council has adopted a voluntary measure of its exposure to credit risk by monitoring the value-weighted average credit rating of its investment portfolio, which is supplied by our advisors. This is calculated by applying a score to each investment (AAA=1, AA+=2, etc.) and taking the arithmetic average, weighted by the size of each investment.																																										
	<table border="1"> <thead> <tr> <th></th> <th>Target</th> <th>Actual</th> </tr> </thead> <tbody> <tr> <td>Portfolio average credit rating</td> <td>A-</td> <td>AA-</td> </tr> </tbody> </table>		Target	Actual	Portfolio average credit rating	A-	AA-																																				
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27.	Counterparty credit quality was assessed and monitored with reference to credit ratings (the Authority's minimum long-term counterparty rating is A-) across rating agencies Fitch, S&P and Moody's); for financial institutions analysis of funding structure and susceptibility to bail-in, credit default swap prices, financial statements, information on potential government support and reports in the quality financial press. The authority also used secured investments products that provide collateral in the event that the counterparty cannot meet its obligations for repayment.																																										
28.	The table below summarises the Council's investment portfolio at 31 March 2021 by credit rating and confirms that all investments were made in line with the Council's approved credit rating criteria:																																										

Table 7: Credit ratings of Investments held at 31st March 2021

Credit Rating	Long Term		Short Term	
	2020	2021	2020	2021
	£000	£000	£000	£000
AAA	3,013	1,009	295	2,142
AA+			0	0
AA			10	0
AA-			16,839	12,000
A+			12,000	18,028
A			2,368	102
A-				
Unrated local authorities	0	0		
Shares in unlisted companies	20	20		
Unrated pooled funds	26,469	26,281	141	292
Total Investments	29,502	27,310	31,653	32,564

29. **Benchmarking:** Our advisors produce quarterly benchmarking which shows the breakdown of our investments and how we compare to their other clients and other English Unitary. Details can be seen in Appendix 3. It shows that on average the return on our internal investments at 0.49% is higher than the average of 0.15% and our overall return including the Local Authority Property Fund (income only) is 4.42% as opposed to the average of 3.85%. This has been achieved without impacting on our average credit rating which at AA- which is higher than the average for both other Local Authorities and Unitary Authorities at A+.

Liquidity Management

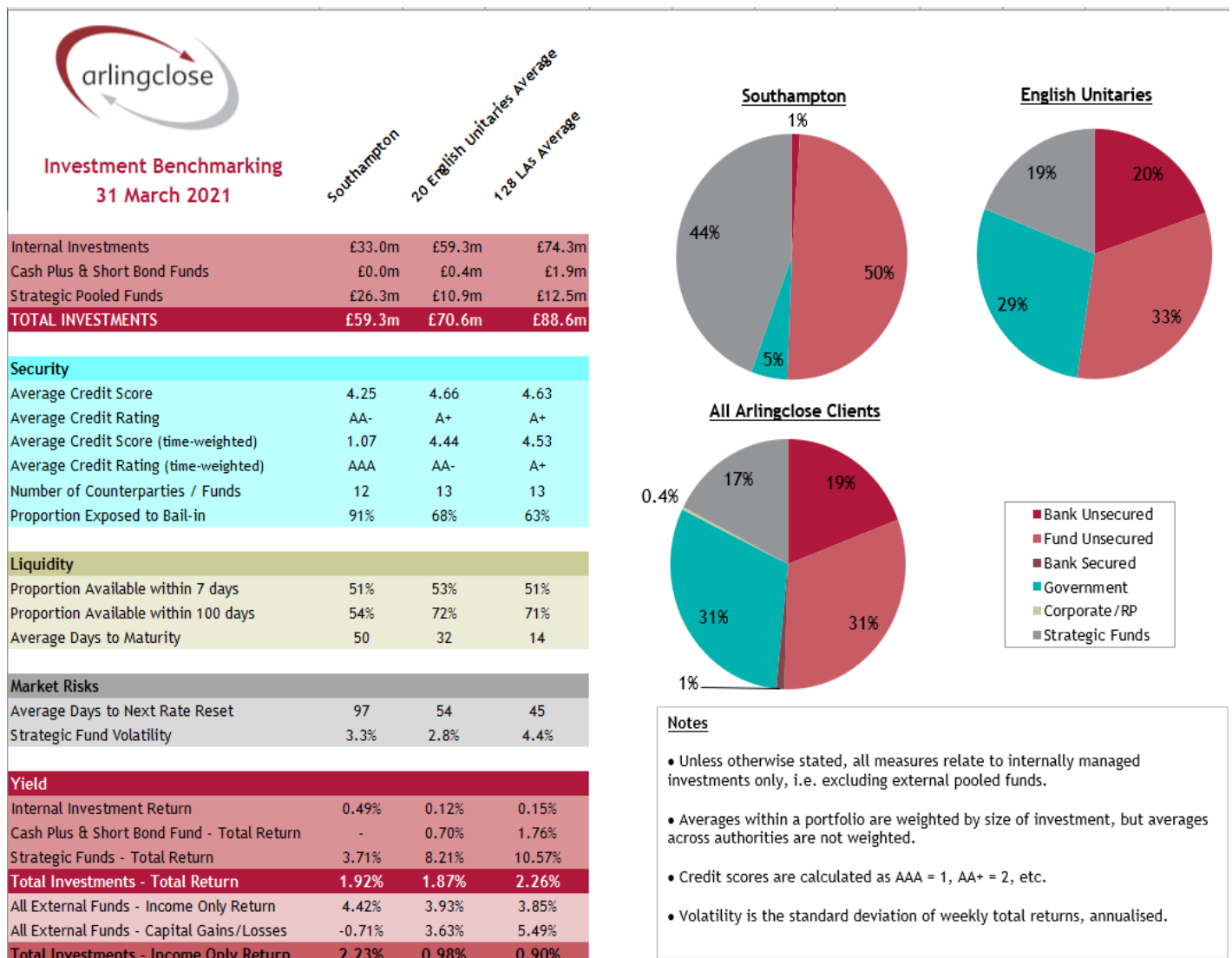
30. In keeping with the DCLG's Guidance on Investments, the Council maintained a sufficient level of liquidity through the use of Money Market Funds and call accounts. There is no perceived risk that the Council will be unable to raise finance to meet its commitments. The Council also has to manage the risk that it will be exposed to replenishing a significant proportion of its borrowing at a time of unfavourable interest rates. The Council would only borrow in advance of need where there is a clear business case for doing so and will only do so for the current capital programme or to finance future debt maturities.

Externally Managed Funds

31. The Council has invested £27M in property funds which offer the potential for enhanced returns over the longer term but will be more volatile in the shorter term. These funds are managed by professional fund managers which allows the Authority to diversify into asset classes other than cash without the need to own and manage the underlying investments.
32. During the initial phase of the pandemic, similar to many other property funds, dealing (i.e. buying or selling units) in the CCLA Local Authorities' Property Fund was suspended by the fund in March 2020 and lifted in September. There was also a change to redemption terms for the CCLA Local Authorities Property Fund; from September 2020 investors are required to give at least 90 calendar days' notice for redemptions.
33. During 2020/21 this investment returned an average yield of 4.25% against the initial investment. Due to market conditions the value of the fund fell from £26.47M at 31 March 2020 to £26.28M a movement of £0.19M in the year, a reduction of £0.72M

	<p>against the original investment. This notional “loss” at year end would only be a cost to the Authority at the point the investment is sold as the Authority is using the alternative fair value through profit and loss (FVPL) accounting and must defer the funds’ fair value losses to the Pooled Investment Fund Adjustment Account until 2023/24.</p> <p>The market value of the investment has continued to improve against its lowest point in August 2020 (£25.29M) and at June 2021 was £27.18M, an increase of £0.90M since March.</p>																																									
34.	<p>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 is regularly reviewed.</p> <p>Strategic fund investments are made in the knowledge that capital values will move both up and down on months, quarters and even years; but with the confidence that over a three to five-year period total returns will exceed cash interest rates. In light of their performance over the long-term and the Authority’s latest cash flow forecasts, investment in these funds has been maintained.</p>																																									
Non – Treasury Investments																																										
35.	<p>The definition of investments in CIPFA’s revised Treasury Management Code now covers all the financial assets of the Authority as well as other non-financial assets which the Authority holds primarily for financial return. This is replicated in MHCLG’s Investment Guidance, in which the definition of investments is further broadened to also include all such assets held partially for financial return.</p>																																									
36.	<p>Between 2016 and 2017, SCC implemented a strategy to invest in commercial properties with the expected return on investment being used to fund council services, known as the Property investment fund (PIF). To date the authority has purchased 3 properties. Details of the properties purchased are shown in the table below. The rate of return on these investment in 2020/21 was 6.07% gross and 2.17% net (after borrowing costs of £1.16M were incurred), which therefore represents a contribution to the revenue account of around £0.64M.</p>																																									
37.	<p>All of the properties remain fully let and the tenants are meeting their financial obligations under the leases and there are currently no concerns regarding the property that has currently fallen in value below the debt outstanding on it due to the current financial environment.</p>																																									
38.	<p>Table 8: Property Investment Fund</p> <table border="1"> <thead> <tr> <th rowspan="2">Property</th> <th>Actual</th> <th colspan="2">31.03.2020 Actual</th> <th colspan="2">31.03.2021 Actual</th> <th>Outstanding Debt 31.03.2021</th> </tr> <tr> <th>Purchase Cost £M</th> <th>Value in Accounts</th> <th>Gain or (Loss) in Year</th> <th>Value in Accounts</th> <th>Gain or (Loss) in Year</th> <th>£M</th> </tr> </thead> <tbody> <tr> <td>Property 1</td> <td>6.47</td> <td>6.30</td> <td>0.03</td> <td>5.21</td> <td>(1.09)</td> <td>5.92</td> </tr> <tr> <td>Property 2</td> <td>14.69</td> <td>10.80</td> <td>(3.07)</td> <td>10.32</td> <td>(0.48)</td> <td>13.44</td> </tr> <tr> <td>Property 3</td> <td>8.53</td> <td>8.39</td> <td>0.22</td> <td>8.73</td> <td>0.34</td> <td>7.81</td> </tr> <tr> <td></td> <td>29.69</td> <td>25.49</td> <td>(2.82)</td> <td>24.26</td> <td>(1.23)</td> <td>27.17</td> </tr> </tbody> </table>	Property	Actual	31.03.2020 Actual		31.03.2021 Actual		Outstanding Debt 31.03.2021	Purchase Cost £M	Value in Accounts	Gain or (Loss) in Year	Value in Accounts	Gain or (Loss) in Year	£M	Property 1	6.47	6.30	0.03	5.21	(1.09)	5.92	Property 2	14.69	10.80	(3.07)	10.32	(0.48)	13.44	Property 3	8.53	8.39	0.22	8.73	0.34	7.81		29.69	25.49	(2.82)	24.26	(1.23)	27.17
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Southampton Benchmarking Scores 31st March 2021



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COMPLIANCE WITH PRUDENTIAL INDICATORS DURING 2020/21 Appendix 4

The Local Government Act 2003 requires the Authority to have regard to the Chartered Institute of Public Finance and Accountancy's Prudential Code for Capital Finance in Local Authorities (the Prudential Code) when determining how much money it can afford to borrow. The objectives of the Prudential Code are to ensure, within a clear framework, that the capital investment plans of local authorities are affordable, prudent and sustainable, and that treasury management decisions are taken in accordance with good professional practice. To demonstrate that the Authority has fulfilled these objectives, the Prudential Code sets out a number of indicators that must be set and monitored each year.

The Council complied with all of its Prudential Indicators. Details of the performance against key indicators are shown below:

1. Gross Debt and the Capital Financing Requirement

This is a key indicator of prudence. In order to ensure that over the medium term debt will only be for a capital purpose, the local authority should ensure that debt does not, except in the short term, exceed the total of CFR in the preceding year plus the estimates of any additional CFR for the current and next two financial years. If in any of these years there is a reduction in the CFR, this reduction is ignored in estimating the cumulative increase in the CFR which is used for comparison with gross external debt. The S151 Officer reports that the Authority had no difficulty in meeting this requirement in 2020/21, nor are there any difficulties envisaged for future years. This view takes into account current commitments, existing plans and the proposals in the approved budget.

There is a significant difference between the gross external borrowing requirement and the net external borrowing requirement represented by the Council's level of balances, reserves, provisions and working capital. The Council's current strategy is only to borrow to the level of its net borrowing requirement. The reasons for this are to reduce credit risk, take pressure off the Council's lending list and also to avoid the cost of carry existing in the current interest rate environment. The table below details our estimated and actual debt position at the 31st March 2021, details of movement on the CFR can be seen in Appendix 2, table 2.

This shows that we borrowed £53.51M less than expected, which is due to slippage in the capital programme of £21.12M, including £8.36M of HRA expected borrowing. Reserves increased rather than the expected fall which resulted in higher cash flows than anticipated. Further details can be seen in the General Fund and HRA capital Outturn reports being reported to Council in July.

Gross Debt	31/03/2020 Actual	31/03/2021 Estimate	31/03/2021 Actual	Movement since last reported position
	£M	£M	£M	£M
Borrowing (Long Term GF)	109.59	107.63	95.63	(12.00)
Borrowing (Long Term HRA)	157.28	177.48	135.97	(41.51)
Borrowing (Short Term)	10.36	10.36	10.36	0.00
Total Borrowing (see Table 18)	277.23	295.47	241.96	(53.51)
Finance leases and Private Finance Initiatives	54.00	50.97	50.97	0.00
Transferred Debt	13.83	13.47	13.47	0.00
Total Other Debt	67.83	64.44	64.44	0.00
Total Debt	345.06	359.91	306.40	(53.51)

2. Authorised Limit and Operational Boundary for External Debt

The Operational Boundary for External Debt is based on the Authority's estimate of most likely, i.e. prudent, but not worst case scenario for external debt. It links directly to the Authority's estimates of capital expenditure, the capital financing requirement and cash flow requirements and is a key management tool for in-year monitoring. Other long-term liabilities comprise finance lease, Private Finance Initiative and other liabilities that are not borrowing but form part of the Authority's debt.

The Authorised Limit for External Debt is the affordable borrowing limit determined in compliance with the Local Government Act 2003. It is the maximum amount of debt that the Authority can legally owe. The authorised limit provides headroom over and above the operational boundary for unusual cash movements.

The S151 Officer confirms that there were no breaches to the Authorised Limit and the Operational Boundary during 2020/21; borrowing at its peak was £306.39M plus other deferred liabilities of £67.83M.

3. Upper Limits for Fixed Interest Rate Exposure and Variable Interest Rate Exposure

These indicators allow the Council to manage the extent to which it is exposed to changes in interest rates. The upper limit for variable rate exposure allows for the use of variable rate debt to offset exposure to changes in short-term rates on our portfolio of investments.

	Limits for 2020/21 (%)	Maximum during 2020/21 (%)	Compliance with Limits
Upper Limit for Fixed Rate Exposure	100	80.8	Yes
Upper Limit for Variable Rate Exposure	50	19.2	Yes

4. Total Principal Sums Invested for Longer Than a Year

This indicator allows the Council to manage the risk inherent in investments longer than a year and the limit is set at £100M. In 2020/21 the actual principal sum invested peaked at £30.17M but has currently reduced to £28.06M, as £2.11M bond matured in June 2021. This reflects the withdrawal from the Bonds market where the return is no longer attractive and to only borrow when cash flow dictate.

5. Ratio of Financing Costs to Net Revenue Stream

This is an indicator of affordability and highlights the revenue implications of existing and proposed capital expenditure by identifying the proportion of the revenue budget required to meet borrowing costs. The ratio is based on the forecast of net revenue expenditure in the medium term financial model. The upper limit for this ratio is currently set at 15% and will remain so for the General Fund to allow for known borrowing decision in the next two years and to allow for additional borrowing affecting major schemes. The table below shows the likely position based on the proposed capital programme (including cost of long term liabilities).

This indicator is not so relevant for the HRA, as financing costs have been built into their 30 year business plan, including the voluntary payment of MRP. No problem is seen with

the affordability but if problems were to arise then the HRA would have the option not to make principle repayments in the early years.

Ratio of Financing Costs to Net Revenue Stream	2019/20 Actual %	2020/21 Estimate %	2020/21 Actual %	Variance %
General Fund	7.97	8.45	8.39	(0.06)
HRA	7.20	6.48	6.40	(0.08)
Total	8.79	9.01	8.94	(0.07)

6. HRA Limit on Indebtedness

Following the Chancellor’s announcement in the 2018 Autumn Budget, restrictions relating to HRA borrowing have been lifted. This means that the previous HRA debt cap of £199.6m has been removed, and there is now the emphasis for councils to plan their new build strategy and financing at a local level incorporating affordability and prudence. As such it has been agreed that the limit will remain for existing stock and that as part of the new build strategy relevant Prudential Indicators will be agreed.

7. Summary

As indicated in this report the Council has operated within the limits set by the Prudential Indicators.

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GLOSSARY OF TREASURY TERMS

<p>Authorised Limit (Also known as the Affordable Limit):</p> <p>A statutory limit that sets the maximum level of external borrowing on a gross basis (i.e. not net of investments) for the Council. It is measured on a daily basis against all external borrowing items on the Balance Sheet (i.e. long and short term borrowing, overdrawn bank balances and long term liabilities).</p>
<p>Balances and Reserves:</p> <p>Accumulated sums that are maintained either earmarked for specific future costs or commitments or generally held to meet unforeseen or emergency expenditure.</p>
<p>Bail - in (Risk):</p> <p>Following the financial crisis of 2008 when governments in various jurisdictions injected billions of dollars into banks as part of bail-out packages, it was recognised that bondholders, who largely remained untouched through this period, should share the burden in future by making them forfeit part of their investment to "bail in" a bank before taxpayers are called upon.</p> <p>A bail-in takes place before a bankruptcy and under current proposals, regulators would have the power to impose losses on bondholders while leaving untouched other creditors of similar stature, such as derivatives counterparties. A corollary to this is that bondholders will require more interest if they are to risk losing money to a bail-in.</p>
<p>Bank Rate:</p> <p>The official interest rate set by the Bank of England's Monetary Policy Committee and what is generally termed at the "base rate". This rate is also referred to as the 'repo rate'.</p>
<p>Bond:</p> <p>A certificate of debt issued by a company, government, or other institution. The bond holder receives interest at a rate stated at the time of issue of the bond. The repayment date is also set at the onset but can be traded during its life, but this will affect the price of a bond which may vary during its life.</p>
<p>Capital Expenditure:</p> <p>Expenditure on the acquisition, creation or enhancement of capital assets.</p>
<p>Capital Financing Requirement (CFR):</p> <p>The CFR is simply the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Council's underlying borrowing need.</p>
<p>CD's:</p> <p>Certificates of Deposits with banks and building societies</p>
<p>Capital Receipts:</p> <p>Money obtained on the sale of a capital asset.</p>

Constant Net Asset Value (CNAV)

These are Money Market Funds which maintain a stable price of £1 per share when investors redeem or purchase shares which mean that that any investment will not fluctuate in value.

Corporate Bonds:

Corporate bonds are bonds issued by companies. The term is often used to cover all bonds other than those issued by governments in their own currencies and includes issues by companies, supranational organisations and government agencies.

Cost of Carry:

The "cost of carry" is the difference between what is paid to borrow compared to the interest which could be earned. For example, if one takes out borrowing at 5% and invests the money at 1.5%, there is a cost of carry of 3.5%.

Counterparty List:

List of approved financial institutions with which the Council can place investments with.

Covered Bond:

Covered bonds are debt securities backed by cash flows from mortgages or public sector loans. They are similar in many ways to asset-backed securities created in securitisation, but covered bond assets remain on the issuer's consolidated balance sheet (usually with an appropriate capital charge). The covered bonds continue as obligations of the issuer (often a bank); in essence, the investor has recourse against the issuer and the collateral, sometimes known as "dual recourse."

CPI :

Consumer Price Index – the UK's main measure of inflation.

Credit Rating:

Formal opinion by a registered rating agency of a counterparty's future ability to meet its financial liabilities; these are opinions only and not guarantees.

Department for Communities and Local Government (DCLG) :

The DCLG is the UK Government department for Communities and Local Government in England. It was established in May 2006 and is the successor to the Office of the Deputy Prime Minister, established in 2001.

Diversify /diversified exposure:

The spreading of investments among different types of assets or between markets in order to reduce risk.

Federal Reserve:

The US central bank. (Often referred to as "the Fed").

FTSE 100 Index:

The FTSE 100 Index is a share index of the 100 companies listed on the London Stock Exchange with the highest market capitalisation. It is one of the most widely used stock indices and is seen as a gauge of business prosperity for business regulated by UK

company law. The index is maintained by the FTSE Group, a subsidiary of the London Stock Exchange Group.

General Fund:

This includes most of the day-to-day spending and income.

Gilts:

Gilts are bonds issued by the UK Government. They take their name from 'gilt-edged': being issued by the UK government, they are deemed to be very secure as the investor expects to receive the full face value of the bond to be repaid on maturity.

Gross Domestic Product (GDP):

Gross Domestic Product measures the value of goods and services produced within a country. GDP is the most comprehensive overall measure of economic output and provides key insight as to the driving forces of the economy.

The G7:

The G7, is a group consisting of the finance ministers of seven industrialised nations: namely the US, UK, France, Germany, Italy, Canada and Japan. They are seven of the eight (China excluded) wealthiest nations on Earth, not by GDP but by global net wealth. The G7 represents more than the 66% of net global wealth (\$223 trillion), according to Credit Suisse Global Wealth Report September 2012.

IFRS:

International Financial Reporting Standards.

LIBID:

The London Interbank Bid Rate (LIBID) is the rate bid by banks on Eurocurrency deposits (i.e. the rate at which a bank is willing to borrow from other banks). It is "the opposite" of the LIBOR (an offered, hence "ask" rate, the rate at which a bank will lend). Whilst the British Bankers' Association set LIBOR rates, there is no correspondent official LIBID fixing.

LOBO:

Stands for Lender Option Borrower Option. The underlying loan facility is typically very long-term - for example 40 to 60 years - and the interest rate is fixed. However, in the LOBO facility the lender has the option to call on the facilities at pre-determined future dates. On these call dates, the lender can propose or impose a new fixed rate for the remaining term of the facility and the borrower has the 'option' to either accept the new imposed fixed rate or repay the loan facility. The upshot of this is that on the option exercise date, the lender could propose an extreme fixed rate, say 20 per cent, which would effectively force the repayment of the underlying facility. The borrower's so called 'option' is only the inalienable right to accept or refuse a new deal such as a fixed rate of 20 per cent.

Maturity:

The date when an investment or borrowing is repaid.

Maturity Structure / Profile:

A table or graph showing the amount (or percentage) of debt or investments maturing over a time period. The amount or percent maturing could be shown on a year-by-year or quarter-by-quarter or month-by-month basis.

Minimum Revenue Provision (MRP):

An annual provision that the Council is statutorily required to set aside and charge to the Revenue Account for the repayment of debt associated with expenditure incurred on capital assets.

Money Market Funds (MMF):

An open-end mutual fund which invests only in money markets. These funds invest in short term debt obligations such as short-dated government debt, certificates of deposit and commercial paper. The main goal is the preservation of principal, accompanied by modest dividends. The fund's net asset value remains constant (eg £1 per unit) but the interest rate does fluctuate. These are liquid investments, and therefore, are often used by financial institutions to store money that is not currently invested. Risk is extremely low due to the high rating of the MMFs; many have achieved AAA credit status from the rating agencies:

- **Constant net asset value (CNAV)** refers to funds which use amortised cost accounting to value all of their assets. They aim to maintain a net asset value (NAV), or value of a share of the fund, at €1/£1/\$1 and calculate their price to two decimal places known as "penny rounding". Most CNAV funds distribute income to investors on a regular basis (distributing share classes), though some may choose to accumulate the income, or add it on to the NAV (accumulating share classes). The NAV of accumulating CNAV funds will vary by the income received.
- **Variable net asset value (VNAV)** refers to funds which use mark-to-market accounting to value some of their assets. The NAV of these funds will vary by a slight amount, due to the changing value of the assets and, in the case of an accumulating fund, by the amount of income received.

This means that a fund with an unchanging NAV is, by definition, CNAV, but a fund with a NAV that varies may be accumulating CNAV or distributing or accumulating VNAV.

Non Specified Investment:

Investments which fall outside the CLG Guidance for **Specified investments** (below).

Operational Boundary:

This linked directly to the Council's estimates of the CFR and estimates of other day to day cash flow requirements. This indicator is based on the same estimates as the Authorised Limit reflecting the most likely prudent but not worst case scenario but without the additional headroom included within the Authorised Limit.

Premiums and Discounts:

In the context of local authority borrowing,

- (a) the premium is the penalty arising when a loan is redeemed prior to its maturity date and
- (b) the discount is the gain arising when a loan is redeemed prior to its maturity date.

If on a £1 million loan, it is calculated that a £150,000 premium is payable on premature redemption, then the amount paid by the borrower to redeem the loan is £1,150,000 plus accrued interest. If on a £1 million loan, it is calculated* that a £50,000 discount receivable on premature redemption, then the amount paid by the borrower to redeem the loan is £950,000 plus accrued interest. PWLB premium/discount rates are calculated according to the length of time to maturity, current market rates (plus a margin), and the existing loan rate which then produces a premium/discount dependent on whether the discount rate is lower/higher than the coupon rate.

**The calculation of the total amount payable to redeem a loan borrowed from the Public Works Loans Board (PWLB) is the present value of the remaining payments of principal and interest due in respect of the loan being repaid prematurely, calculated on normal actuarial principles. More details are contained in the PWLB's lending arrangements circular.*

Property:

Investment property is property (land or a building or part of a building or both) held (by the owner or by the lessee under a finance lease) to earn rentals or for capital appreciation or both.

Prudential Code:

Developed by CIPFA and introduced on 01/4/2004 as a professional code of practice to support local authority capital investment planning within a clear, affordable, prudent and sustainable framework and in accordance with good professional practice.

Prudential Indicators:

Indicators determined by the local authority to define its capital expenditure and asset management framework. They are designed to support and record local decision making in a manner that is publicly accountable; they are not intended to be comparative performance indicators

Public Works Loans Board (PWLB):

This is a statutory body operating within the United Kingdom Debt Management Office, an Executive Agency of HM Treasury. The PWLB's function is to lend money from the National Loans Fund to local authorities and other prescribed bodies, and to collect the repayments.

Quantitative Easing (QE):

In relation to the UK, it is the process used by the Bank of England to directly increase the quantity of money in the economy. It *“does not involve printing more banknotes. Instead, the Bank buys assets from private sector institutions – that could be insurance companies, pension funds, banks or non-financial firms – and credits the seller’s bank account. So the seller has more money in their bank account, while their bank holds a corresponding claim against the Bank of England (known as reserves). The end result is more money out in the wider economy”*. Source: Bank of England.

Regularity Method - MRP:

As detailed under MRP, this is a charge to revenue to repay capital expenditure financed by borrowing. There are a number of options for a prudent provision and this is for debt prior to 2008 which is supported by the Government through the RSG system. Although regulation 28 is revoked by regulation 4(1) of the 2008 Regulations, authorities are able to calculate MRP as if it were still in force.

Revenue Expenditure:

Expenditure to meet the continuing cost of delivery of services including salaries and wages, the purchase of materials and capital financing charges.

RPI:

Retail Prices Index is a monthly index demonstrating the movement in the cost of living as it tracks the prices of goods and services including mortgage interest and rent. Pensions and index-linked gilts are uprated using the RPI index.

<p>(Short) Term Deposits:</p> <p>Deposits of cash with terms attached relating to maturity and rate of return (Interest).</p>
<p>Specified Investments:</p> <p>Term used in the CLG Guidance and Welsh Assembly Guidance for Local Authority Investments. Investments that offer high security and high liquidity, in sterling and for no more than one year. UK government, local authorities and bodies that have a high credit rating.</p>
<p>Supported Borrowing:</p> <p>Borrowing for which the costs are supported by the government or third party.</p>
<p>Temporary Borrowing:</p> <p>Borrowing to cover peaks and troughs of cash flow, not to fund capital spending.</p>
<p>Treasury Management Code:</p> <p>CIPFA's Code of Practice for Treasury Management in the Public Services, initially brought in 2003, subsequently updated in 2009 and 2011.</p>
<p>Treasury Management Practices (TMP):</p> <p>Treasury Management Practices set out the manner in which the Council will seek to achieve its policies and objectives and prescribe how it will manage and control these activities.</p>
<p>Unsupported Borrowing:</p> <p>Borrowing which is self-financed by the local authority. This is also sometimes referred to as Prudential Borrowing.</p>
<p>Variable Net Asset Value (VNAV):</p> <p>Redemptions and investments in Money Market Funds (MMF's) are on the basis of the fund's Net Asset Value (NAV) per share. The NAV of any money market fund is the market value of the fund's assets minus its liabilities and is stated on a per share basis. The net value of the assets held by an MMF can fluctuate, and the market value of a share may not always be exactly the amount that has been invested.</p>
<p>Yield:</p> <p>The measure of the return on an investment instrument.</p>

DECISION-MAKER:	GOVERNANCE COMMITTEE		
SUBJECT:	2020/21 EXTERNAL AUDIT PLAN		
DATE OF DECISION:	26 JULY 2021		
REPORT OF:	EXTERNAL AUDITOR		
<u>CONTACT DETAILS</u>			
AUTHOR:	Name:	DAVID WHITE	Tel:
	E-mail:	dwhite@uk.ey.com	
Director	Name:	KEVIN SUTER	Tel:
	E-mail:	ksuter@uk.ey.com	

STATEMENT OF CONFIDENTIALITY	
NONE	
BRIEF SUMMARY	
<p>The audit plan sets out how we will carry out our responsibilities as external auditor. Its purpose is to provide the Governance Committee with a basis to review our proposed scope and audit approach for 2020/21.</p> <p>The plan summarises our initial assessment of the key risks driving the development of an effective audit for the Council, and outlines our planned audit strategy in response to those risks.</p>	
RECOMMENDATIONS:	
	(i) The Governance Committee is invited to comment on and note the 2020/21 External Audit Plan as attached.
REASONS FOR REPORT RECOMMENDATIONS	
1.	Issued in accordance with the Local Audit and Accountability Act 2014, the National Audit Office's Code of Audit Practice, the Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA) Ltd, auditing standards and other professional requirements.
ALTERNATIVE OPTIONS CONSIDERED AND REJECTED	
	None
DETAIL (Including consultation carried out)	
	The 2020/21 External Audit Plan has been provided to relevant senior managers for comment prior to being submitted into committee papers.
RESOURCE IMPLICATIONS	
<u>Capital/Revenue</u>	
	N/A
<u>Property/Other</u>	
	N/A

LEGAL IMPLICATIONS	
<u>Statutory power to undertake proposals in the report:</u>	
	Local Audit and Accountability Act 2014, the National Audit Office's Code of Audit Practice, the Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA) Ltd, auditing standards and other professional requirements
<u>Other Legal Implications:</u>	
	N/A
RISK MANAGEMENT IMPLICATIONS	
	N/A
POLICY FRAMEWORK IMPLICATIONS	
	N/A

KEY DECISION?	No
WARDS/COMMUNITIES AFFECTED:	N/A
<u>SUPPORTING DOCUMENTATION</u>	
Appendices	
1.	Southampton City Council 2020-21 External Audit Plan

Documents In Members' Rooms

1.	None
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Equality Impact Assessment

Do the implications/subject of the report require an Equality and Safety Impact Assessment (ESIA) to be carried out.	No
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Data Protection Impact Assessment

Do the implications/subject of the report require a Data Protection Impact Assessment (DPIA) to be carried out.	No
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Other Background Documents

Other Background documents available for inspection at: N/A

Title of Background Paper(s)	Relevant Paragraph of the Access to Information Procedure Rules / Schedule 12A allowing document to be Exempt/Confidential (if applicable)
1.	N/A

Southampton City Council

Audit planning report

Year ended 31 March 2021

July 2021

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Members of the Governance Committee
Southampton City Council
Civic Centre
Southampton, Hampshire,
SO14 7LY

9 July 2021

Dear Governance Committee Members

We are pleased to attach our Audit Plan which sets out how we intend to carry out our responsibilities as auditor. Its purpose is to provide the Governance Committee with a basis to review our proposed audit approach and scope for the 2020/21 audit in accordance with the requirements of the Local Audit and Accountability Act 2014, the National Audit Office's 2020 Code of Audit Practice, the Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA) Ltd, auditing standards and other professional requirements. It is also to ensure that our audit is aligned with the Committee's service expectations.

This plan summarises our initial assessment of the key risks driving the development of an effective audit for the Council, and outlines our planned audit strategy in response to those risks. Our planning procedures remain ongoing, specifically in relation to the new requirements for the value for money conclusion. We will provide an update to the Governance Committee should any further risks be identified.

This report is intended solely for the information and use of the Governance Committee, and is not intended to be and should not be used by anyone other than these specified parties.

We welcome the opportunity to discuss this report with you on 26 July 2021 as well as understand whether there are other matters which you consider may influence our audit.

Yours faithfully

Kevin Suter

For and on behalf of Ernst & Young LLP

Enc

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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.psa.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 Governance Committee and management of Southampton City Council in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to the Governance Committee, and management of Southampton City 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 Governance Committee and management of Southampton City 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.



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01

Overview of our 2020/21 audit strategy



Overview of our 2020/21 audit strategy

The following 'dashboard' summarises the significant accounting and auditing matters. It seeks to provide the Governance Committee with an overview of our initial risk identification for the upcoming audit and any changes in risks identified in the current year.

Audit risks and areas of focus

Risk / area of focus	Risk identified	Change from PY	Details
Misstatement due to fraud or error	Fraud risk	No change in risk or focus	As identified in ISA 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that would otherwise appear to be operating effectively.
Risk of fraud in revenue and expenditure recognition, through inappropriate capitalisation of revenue expenditure	Fraud risk	No change in risk or focus	Under ISA 240 there is a presumed risk that revenue may be misstated due to improper revenue recognition. In the public sector, this requirement is modified by Practice Note 10 issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition. We have assessed the risk is most likely to occur through the inappropriate capitalisation of revenue expenditure.
Valuation of Investment Property and Land and Buildings (valued using EUV & FV method)	Significant risk	No change in risk or focus	The fair value of Investment Property (IP) and Land and Buildings valued with reference to market factors (existing use value – EUV – assets / fair value – FV – assets) represent significant balances in the Council's accounts and are subject to valuation changes, impairment reviews and market fluctuations. Management is required to make material judgements and apply estimation techniques to calculate the year-end balances recorded in the balance sheet. Due to continued uncertainties in the market caused by Covid-19, we have kept this risk as significant in our initial planning risk assessment.
Valuation of Land & Buildings valued at Depreciated Replacement Cost (DRC), and Housing Revenue Account (HRA) properties	Inherent risk	No change in risk or focus	The value of land & buildings valued at DRC, and HRA properties, also represent significant balances 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. As these valuations are less impacted by market-based factors, they are not judged to present a significant risk.

Overview of our 2020/21 audit strategy

The following 'dashboard' summarises the significant accounting and auditing matters. It seeks to provide the Audit Committee with an overview of our initial risk identification for the upcoming audit and any changes in risks identified in the current year.

Audit risks and areas of focus

Risk / area of focus	Risk identified	Change from PY	Details
Pension Liability Valuation	Inherent risk	No change in risk or focus	<p>The Local Authority Accounting Code of Practice and IAS19 require the Council to make extensive disclosures within its financial statements regarding its membership of the Local Government Pension Scheme administered by Hampshire County Council.</p> <p>Accounting for this scheme involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf. ISAs (UK) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.</p>
Restatement of the Comprehensive Income and Expenditure Statement (CIES), Expenditure and Funding Analysis (EFA) and related disclosure notes	Inherent risk	No change in risk or focus	<p>Under CIPFA's "Telling the Story" agenda, the Council is required to disclose its income and expenditure in accordance with the structure used for internal reporting, rather than the previous presentation as prescribed by SERCOP. The Council has changed its internal reporting structure in 2020/21, which will mean the CIES, the supporting EFA, and related disclosure notes, will need to be restated in line with the new structure.</p>
Accounting for Covid-19 related government grants	Inherent risk	New area of focus	<p>The Council has received a significant level of government funding in the relation to Covid-19. There is a need for the Council to ensure that it has recognised and accounted for these grants appropriately, taking into account any associated restrictions and conditions.</p>
New fixed asset register	Inherent risk	New area of focus	<p>The Council has used the new fixed asset module of Business World to record its property, plant and equipment and investment property for the first time in 2020/21. The Council needs to ensure opening asset balances are fully and accurately transferred to this system, and that the system is correctly processing in-year movements in asset balances.</p>

Overview of our 2020/21 audit strategy

The following 'dashboard' summarises the significant accounting and auditing matters. It seeks to provide the Audit Committee with an overview of our initial risk identification for the upcoming audit and any changes in risks identified in the current year.

Audit risks and areas of focus

Risk / area of focus	Risk identified	Change from PY	Details
Going Concern Disclosure	Area of focus	No change in risk or focus	<p>There is a presumption that the Council will continue as a going concern for the foreseeable future. However, the Council is required to carry out a going concern assessment that is proportionate to the risks it faces. In light of the continued impact of Covid-19 on the wider economy, there is a need for the Council to ensure it's going concern assessment, including its supporting cashflow forecast, is robust and comprehensive. The Council is required to ensure that its going concern disclosure within the statement of accounts adequately reflects its going concern assessment, and in particular highlights any material uncertainties it has identified.</p> <p>In addition, the auditing standard in relation to going concern (ISA570) has been revised with effect for the 2020/21 accounts audit and we need to ensure we comply fully with the requirements of the revised standard.</p>

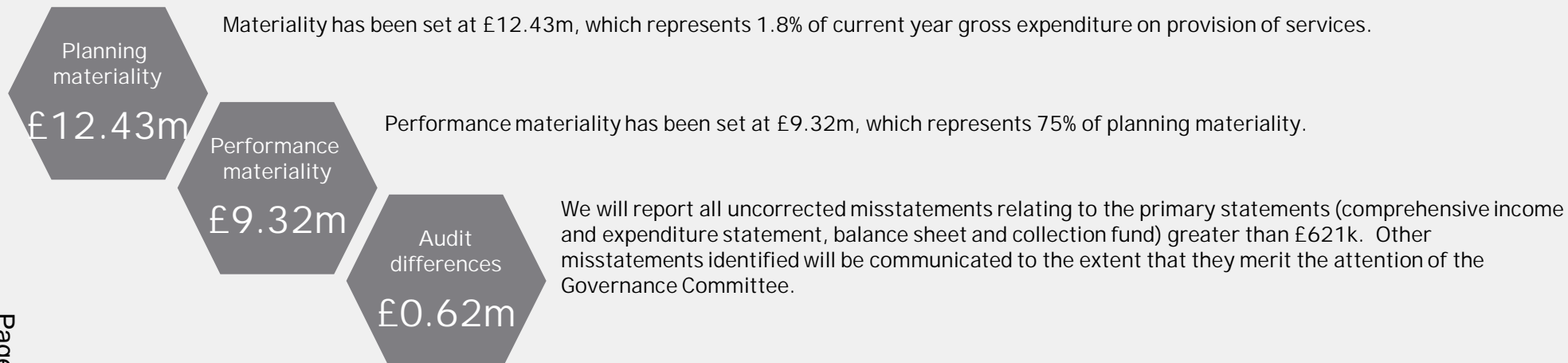
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Auditing accounting estimates

In addition to the above risks and areas of focus, a revised auditing standard has been issued in respect of the audit of accounting estimates. The revised standard requires auditors to consider inherent risks associated with the production of accounting estimates. These could relate, for example, to the complexity of the method applied, subjectivity in the choice of data or assumptions or a high degree of estimation uncertainty. As part of this, auditors now consider risk on a spectrum (from low to high inherent risk) rather than a simplified classification of whether there is a significant risk or not. At the same time, we may see the number of significant risks we report in respect of accounting estimates to increase as a result of the revised guidance in this area. The changes to the standard may affect the nature and extent of information that we may request and will likely increase the level of audit work required.

Overview of our 2020/21 audit strategy

Materiality



Overview of our 2020/21 audit strategy

Audit scope

This Audit Plan covers the work that we plan to perform to provide you with:

- Our audit opinion on whether the financial statements of Southampton City Council give a true and fair view of the financial position as at 31 March 2021 and of the income and expenditure for the year then ended; and
- Our commentary on your arrangements to secure value for money in your use of resources for the relevant period. We include further details on value for money in Section 03, highlighting the changes included in the NAO's Code of Audit Practice 2020.

We will also review and report to the National Audit Office (NAO), to the extent and in the form required by them, on the Council's Whole of Government Accounts return.

Our audit will also include the mandatory procedures that we are required to perform in accordance with applicable laws and auditing standards.

When planning the audit we take into account several key inputs:

- Strategic, operational and financial risks relevant to the financial statements;
- Developments in financial reporting and auditing standards;
- The quality of systems and processes;
- Changes in the business and regulatory environment; and
- Management's views on all of the above.

By considering these inputs, our audit is focused on the areas that matter and our feedback is more likely to be relevant to the Council.

Taking the above into account, and as articulated in this audit plan, our professional responsibilities require us to independently assess the risks associated with providing an audit opinion and undertake appropriate procedures in response to that. Our Terms of Appointment with PSAA allow them to vary the fee dependent on "the auditors assessment of risk and the work needed to meet their professional responsibilities". PSAA are aware that the setting of scale fees has not kept pace with the changing requirements of external audit with increased focus on, for example, the valuations of land and buildings, the auditing of groups, the valuation of pension obligations, the introduction of new accounting standards such as IFRS 9 and 15 in recent years as well as the expansion of factors impacting the value for money conclusion. Therefore to the extent any of these are relevant in the context of Southampton City Council's audit, we will discuss these with management as to the impact on the scale fee.



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02 Audit risks



Significant risk

We have set out below the significant risks (including fraud risks denoted by*) identified for the current year audit along with the rationale and expected audit approach. The risks identified below may change to reflect any significant findings or subsequent issues we identify during the audit.

Misstatements due to fraud or error*

What is the risk?

The financial statements as a whole are not free of material misstatements whether caused by fraud or error.

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

We have considered the areas in which management could seek to override controls at Southampton City Council, and this had fed into our consideration of the risk of fraud in revenue and expenditure recognition as set out on page 12.

What will we do?

We will:

- Enquire of management about risks of fraud and the controls put in place to address those risks.
- Understand the oversight given by those charged with governance of management's processes over fraud.
- Consider the effectiveness of management's controls designed to address the risk of fraud.
- Perform mandatory procedures regardless of specifically identified fraud risks, including:
 - Testing of journal entries and other adjustments in the preparation of the financial statements;
 - Reviewing accounting estimates for evidence of management bias; and
 - Evaluating the business rationale for significant unusual transactions.

Significant risk

Risk of fraud in revenue and expenditure recognition, through inappropriate capitalisation of revenue expenditure*

What is the risk?

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

We have assessed that the risk is most likely to occur through the inappropriate capitalisation of revenue expenditure, as there is an incentive to reduce expenditure which is funded from Council Tax. This would result in funding expenditure that should properly be defined as revenue, through inappropriate sources such as capital receipts, capital grants, or borrowing. We believe the significant risk manifests itself within PPE additions.

The manipulation of capitalising expenditure could occur through management override of controls.

What will we do?

We will:

- Test PPE additions using lowered testing thresholds, to ensure they are appropriately supported by documentary evidence, and that the expenditure incurred and capitalised is clearly capital in nature;
- Use our data analytics tools to identify and understand the basis for any significant journals transferring expenditure from non-capital codes to PPE additions or from revenue to capital codes on the general ledger at the end of the year.

Misstatements that occur in relation to the risk of fraud in revenue and expenditure recognition could affect the income and expenditure accounts.

We focus our testing on capital additions (£73m in the draft 2020/21 accounts)



Areas of Audit Focus

Significant risk

Valuation of Investment Property and Land and Buildings (valued using Existing Use Value & Fair Value methods)

What is the risk?

The value of Investment Property (IP) and Land and Buildings valued using EUV/FV methods, represent significant balances in the Council's accounts and are subject to valuation changes, impairment reviews, and market fluctuations. Management is required to make material judgements and apply estimation techniques to calculate the year-end balances 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.

The market volatility brought about by Covid-19 in the last quarter in the prior year and throughout the 2020/21 year relates primarily to assets valued with reference to market or income information. Assets carried at depreciated replacement cost (DRC) and EUV-SH (Council housing) are not considered to be impacted in the same way.

What will we do?

We will:

- Commission EY Real Estates, our internal specialists on asset valuations, to consider the valuation approach in more detail for a sample of assets.
- Consider the work performed by the Council's valuer, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work.
- Sample test key asset information used by the valuer in performing their valuations and challenge the key assumptions used by the valuer.
- Test whether valuations have been correctly processed in the financial statements.
- Consider the annual cycle of valuations to ensure that assets have been valued within a suitable rolling programme as required by the Code for PPE, and annually for IP. We will also consider if there are any specific changes to assets that have occurred and whether these have been communicated to the valuer.
- Review assets not subject to valuation in 2020/21 to confirm that the remaining asset base is not materially misstated.

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Financial statement impact

Valuation errors have the potential to impact the balance sheet, CIES and movement in reserves statement, as well as several key disclosure notes.

The Council has revalued the following value of assets in 2020/21:

Land & Buildings (EUV) : £56m

Investment Property: £113m

Other areas of audit focus

We have identified other areas of the audit, that have not been classified as significant risks, but are still important when considering the risks of material misstatement to the financial statements and disclosures.

What is the risk/area of focus?	What will we do?
<p>Valuation of Land & Buildings valued at Depreciated Replacement Cost (DRC), and Housing Revenue Account (HRA) properties (inherent risk)</p> <p>The value of land & buildings valued at DRC, and HRA properties, also represent significant balances in the Council's accounts and are 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>The Council has revalued £382m of DRC assets in 2020/21, and £682m of HRA properties.</p>	<p>We will:</p> <ul style="list-style-type: none"> • Consider the work performed by the Council's valuer, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work; • Sample test key asset information used by the valuers in performing their valuation and challenge the key assumptions used by the valuer; • Test whether valuations have been correctly processed in the financial statements; • Consider the annual cycle of valuations to ensure that assets have been valued within a 5 year rolling programme as required by the Code, and • Review assets not subject to valuation in 2020/21 to confirm that the remaining asset base is not materially misstated.
<p>Pension Liability Valuation (inherent risk)</p> <p>The Local Authority Accounting Code of Practice and IAS19 require the Council to make extensive disclosures within its financial statements regarding its membership of the Local Government Pension Scheme administered by Hampshire County Council.</p> <p>The Council's pension fund deficit is a material estimated balance and the Code requires that this liability be disclosed on the Council's balance sheet. As per the 2020/21 draft statement of accounts this totalled £587 million.</p> <p>The information disclosed is based on the IAS 19 report issued to the Council by the actuary to the County Council.</p> <p>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 will:</p> <ul style="list-style-type: none"> • Liaise with the auditors of Hampshire County Council Pension Fund, to obtain assurances over the information supplied to the actuary in relation to Southampton City Council; • Assess the work of the Pension Fund actuary (Aon Hewitt) including the assumptions they have used by relying on the work of PWC - Consulting Actuaries commissioned by the National Audit Office for all Local Government sector auditors, and considering any relevant reviews by the EY actuarial team; and • Review and test the accounting entries and disclosures made within the Council's financial statements in relation to IAS19.

Audit risks

Other areas of audit focus (continued)

What is the risk/area of focus?

Restatement of CIES, EFA and related disclosure notes (inherent risk)

Under CIPFA's "Telling the Story" agenda, the Council is required to disclose its income and expenditure in accordance with the structure used for internal reporting, rather than the previous presentation as prescribed by SERCOP. The Council has changed its internal reporting structure in 2020/21, which will mean the Comprehensive Income and Expenditure Statement, the supporting Expenditure and Funding Analysis, and related disclosure notes, will need to be restated in line with the new structure.

What will we do?

We will:

- Agree the restated comparative figures back to the Council's prior year financial statements and supporting working papers;
- Review the analysis of how these figures are derived from the Council's ledger system and how overheads are apportioned across the service areas reported.

Accounting for Covid-19 related grant funding (inherent risk)

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.

We will consider the Council's judgement on material grants received in relation to whether it is acting as:

- Agent, where it has determined that it is acting as an intermediary; or
- Principal, where the Council has determined that it is acting on its own behalf.

For grants received where the Council acted as principal, we will further consider whether any associated restrictions and conditions have been met and that grants have been claimed and recognised in accordance with the scheme rules.

Other areas of audit focus (continued)

What is the risk/area of focus?	What will we do?
<p>New fixed asset register (inherent risk)</p> <p>The Council has used the new fixed asset module of Business World to record its property, plant and equipment and investment property for the first time in 2020/21. The Council needs to ensure opening asset balances are fully and accurately transferred to this system.</p>	<p>We will:</p> <ul style="list-style-type: none"> • Agree the opening balances in the new system to the closing balances in the previous fixed asset register • Consider the outcome of our wider testing of PPE and Investment Property to assess the accuracy of transactions processed in the new system
<p>Going Concern disclosures (area of focus)</p> <p>There is a presumption that the Council will continue as a going concern for the foreseeable future. However, the Council is required to carry out a going concern assessment that is proportionate to the risks it faces. In light of the continued impact of Covid-19 there is a need for the Council to ensure its going concern assessment, including its cashflow forecast, is thorough and appropriately comprehensive.</p> <p>The Council is required to ensure that its going concern disclosure within the statement of accounts adequately reflects its going concern assessment and in particular highlights any uncertainties it has identified.</p> <p>In addition, the auditing standard in relation to going concern (ISA570) has been revised with effect for the 2020/21 accounts audit. (See page 15)</p>	<p>We will:</p> <ul style="list-style-type: none"> • Challenge management's identification of events or conditions impacting going concern. • Test management's resulting assessment of going concern by evaluating supporting evidence (including consideration of the risk of management bias). • Review the Council's cashflow forecast covering the foreseeable future, to ensure that it has sufficient liquidity to continue to operate as a going concern including an assessment of any underlying need to borrow. • Undertake a 'stand back' review to consider all of the evidence obtained, whether corroborative or contradictory, when we draw our conclusions on going concern. • Challenge the disclosure made in the accounts in respect of going concern and any material uncertainties.

Impact of changes in auditing standards

Auditing accounting estimates

ISA 540 (Revised) - Auditing Accounting Estimates and Related Disclosures applies to audits of all accounting estimates in financial statements for periods beginning on or after December 15, 2019.

This revised ISA responds to changes in financial reporting standards and a more complex business environment which together have increased the importance of accounting estimates to the users of financial statements and introduced new challenges for preparers and auditors.

The revised ISA requires auditors to consider inherent risks associated with the production of accounting estimates. These could relate, for example, to the complexity of the method applied, subjectivity in the choice of data or assumptions or a high degree of estimation uncertainty. As part of this, auditors consider risk on a spectrum (from low to high inherent risk) rather than a simplified classification of whether there is a significant risk or not. At the same time, we expect the number of significant risks we report in respect of accounting estimates to increase as a result of the revised guidance in this area.

The changes to the standard may affect the nature and extent of information that we may request and will likely increase the level of audit work required, particularly in cases where an accounting estimate and related disclosures are higher on the spectrum of inherent risk. For example:

- We may place more emphasis on obtaining an understanding of the nature and extent of your estimation processes and key aspects of related policies and procedures. We will need to review whether controls over these processes have been adequately designed and implemented in a greater number of cases.
- We may provide increased challenge of aspects of how you derive your accounting estimates. For example, as well as undertaking procedures to determine whether there is evidence which supports the judgments made by management, we may also consider whether there is evidence which could contradict them.
- We may make more focussed requests for evidence or carry out more targeted procedures relating to components of accounting estimates. This might include the methods or models used, assumptions and data chosen or how disclosures (for instance on the level of uncertainty in an estimate) have been made, depending on our assessment of where the inherent risk lies.
- You may wish to consider retaining experts to assist with related work. You may also consider documenting key judgements and decisions in anticipation of auditor requests, to facilitate more efficient and effective discussions with the audit team.
- We may ask for new or changed management representations compared to prior years.

Impact of changes in auditing standards - continued

ISA 570 (Going Concern)

The FRC has issued significant revisions to ISA (UK) 570 - Going Concern. This follows several well-publicised cases of perceived audit failure, such as Carillion and BHS. In these cases, the auditors failed to raise concerns in the auditor's report about the viability of the companies, despite them collapsing shortly after.

The changes increase the work required by auditors on going concern. As a result, we will be requesting greater evidence on going concern to meet these requirements, including, in all cases, management's assessment of the entity's ability to continue as a going concern for a period of at least a year from certification.

Key changes

The revised ISA 570 shifts the burden of responsibility on to an auditor to seek specific evidence over whether an entity is a going concern as opposed to reach a conclusion based on the evidence obtained throughout the audit. This has meant the following changes:

- A new requirement to design and perform specific risk assessment procedures to identify whether a material uncertainty related to going concern exists;
- Specified procedures that the audit team must carry out to evaluate management's assessment regardless of whether there are events or conditions that cast significant doubt on going concern;
- Introduction of the concept of management bias in respect of going concern;
- A requirement for more explicit conclusions and an explanation of work performed on going concern within the audit opinion / report.

The ISA does acknowledge that the level of detail in management's assessment and the auditor's evaluation of this assessment may be lower where this is appropriate in the circumstances. This may be the case where the entity is established in statute and there is a statutory mechanism by which it receives funding. The fact that an entity is wholly funded by grant in aid or other support from the government is not however in itself sufficient evidence that the entity is a going concern.

Evidence requirements

The changes to ISA 570 could increase the evidence requests made by audit teams. We will require written assessments supported, where appropriate, by cash flow forecasts and budgets for a period of at least 12 months from Approval of the Financial Statements. These will need to be realistic and based on up-to-date information with assumptions appropriate to the entity's circumstances. We may ask for evidence to support the assumptions made and sensitivity analysis.

Where the assessment involves continued financial support from a third party, we will likely need written third party evidence of that except where such support is statutory.



03

Value for Money Risks



Value for money

Council responsibilities for value for money

The Council is required to maintain an effective system of internal control that supports the achievement of its policies, aims and objectives while safeguarding and securing value for money from the public funds and other resources at its disposal.

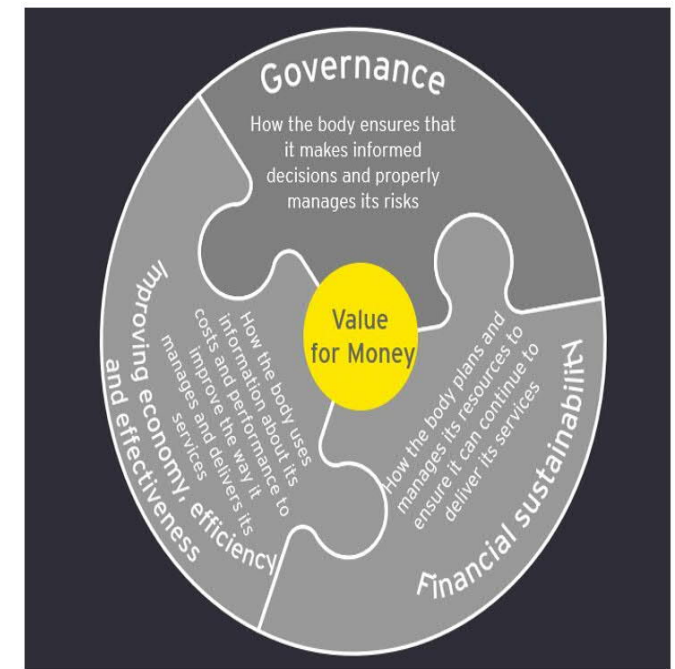
As part of the material published with its financial statements, the Council is required to bring together commentary on its governance framework and how this has operated during the period in an annual governance statement. In preparing its annual governance statement, the Council tailors the content to reflect its own individual circumstances, consistent with the requirements of the relevant accounting and reporting framework and having regard to any guidance issued in support of that framework. This includes a requirement to provide commentary on its arrangements for securing value for money from its use of resources.

Auditor responsibilities under the new Code

Under the 2020 Code we are still required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources. However, there is no longer overall evaluation criterion on which we need to conclude. Instead, the 2020 Code requires the auditor to design their work to provide them with sufficient assurance to enable them to report to the Council a commentary against specified reporting criteria (see below) on the arrangements the Council has in place to secure value for money through economic, efficient and effective use of its resources for the relevant period.

The specified reporting criteria are:

- Financial sustainability
How the Council plans and manages its resources to ensure they can continue to deliver its services;
- Governance
How the Council ensures that it makes informed decisions and properly manages its risks; and
- 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.



Planning and identifying VFM risks

The NAO's guidance notes require us to carry out a risk assessment which gathers sufficient evidence to enable us to document our evaluation of the Council's arrangements, in order to enable us to draft a commentary under the three reporting criteria. This includes identifying and reporting on any significant weaknesses in those arrangements and making appropriate recommendations. This is a change to 2015 Code guidance notes, where the NAO required auditors, as part of planning, to consider the risk of reaching an incorrect conclusion in relation to the overall criterion.

In considering the Council's arrangements, we are required to consider:

- The Council's Annual Governance Statement;
- Evidence that the Council's arrangements were in place during the reporting period;
- Evidence obtained from our work on the accounts;
- The work of inspectorates and other bodies; and
- Any other evidence source that we regard as necessary to facilitate the performance of our statutory duties.

We then consider whether there is evidence to suggest that there are significant weaknesses in arrangements. The NAO's guidance is clear that the assessment of what constitutes a significant weakness and the amount of additional audit work required to adequately respond to the risk of a significant weakness in arrangements is a matter of professional judgement. However, the NAO states that a weakness may be said to be significant if it:

- Exposes – or could reasonably be expected to expose – the Council to significant financial loss or risk;
- Leads to – or could reasonably be expected to lead to – significant impact on the quality or effectiveness of service or on the Council's reputation;
- Leads to – or could reasonably be expected to lead to – unlawful actions; or
- Identifies a failure to take action to address a previously identified significant weakness, such as failure to implement or achieve planned progress on action/improvement plans.

We should also be informed by a consideration of:

- The magnitude of the issue in relation to the size of the Council;
- Financial consequences in comparison to, for example, levels of income or expenditure, levels of reserves (where applicable), or impact on budgets or cashflow forecasts;
- The impact of the weakness on the Council's reported performance;
- Whether the issue has been identified by the Council's own internal arrangements and what corrective action has been taken or planned;
- Whether any legal judgements have been made including judicial review;
- Whether there has been any intervention by a regulator or Secretary of State;
- Whether the weakness could be considered significant when assessed against the nature, visibility or sensitivity of the issue;
- The impact on delivery of services to local taxpayers; and
- The length of time the Council has had to respond to the issue.

Value for money

Responding to identified risks

Where our planning work has identified a risk of significant weakness, the NAO's guidance requires us to consider what additional evidence is needed to determine whether there is a significant weakness in arrangements and undertake additional procedures as necessary, including where appropriate, challenge of management's assumptions. We are required to report our planned procedures to the Governance Committee.

Reporting on VFM

In addition to the commentary on arrangements, where we are not satisfied that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources the 2020 Code has the same requirement as the 2015 Code in that we should refer to this by exception in the audit report on the financial statements.

However, a new requirement under the 2020 Code is for us to include the commentary on arrangements in a new Auditor's Annual Report. The 2020 Code states that the commentary should be clear, readily understandable and highlight any issues we wish to draw to the Council's attention or the wider public. This should include details of any recommendations arising from the audit and follow-up of recommendations issued previously, along with our view as to whether they have been implemented satisfactorily.

The new Code promotes more timely reporting by auditors. So where we have sufficient evidence to determine that there is a significant weakness on VFM related arrangements we can report that weakness, and an associated recommendation for improvement, at that time and not wait until we issue our Audit Results Report on the audit of the statement of accounts.

Summary of changes in VFM requirements between the 2015 and 2020 Codes of Audit Practice

We set out a summary of key changes in VFM requirements between the 2015 and 2020 Codes in tabular form on pages 24-27.

Status of our 2020/21 VFM Planning

Our planning procedures for the value for money conclusion remain ongoing. We have identified one risk of significant weakness in arrangements, which is set out on the next page. If any further risks are identified during the course of our audit, we will provide an update to the Governance Committee.



Value for Money Risks

What is the risk of significant weakness in arrangements?

What arrangements does the risk affect?

What will we do?

The Council's going concern disclosure in the 2019/20 financial statements indicated a risk that general fund reserves would need to be used to meet budget gaps, arising largely from factors linked to Covid-19, to the extent that these reserves could be depleted down to the minimum level set by Council policy (£10m). Were this to occur, it would create a risk that future budget gaps or financial shocks could not be met. This is judged to give rise to a potential weakness in arrangements to ensure financial sustainability, and has therefore been identified as a risk to our value for money conclusion for 2020/21.

Financial sustainability

Our approach will focus on:

- Reviewing the actions taken by the Council to manage the financial pressures arising from Covid-19;
- Reviewing the outturn position for 2020/21 and comparing this with in-year forecasts; and
- Reviewing the Council's latest Medium Term Financial Strategy and the key assumptions on which it is based.

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Value for money – Code requirements

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2015 Code requirement	2020 Code requirement
<p>Overall requirement For auditors to satisfy themselves that the audited body has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.</p>	<p>Overall requirement No change in requirement.</p>
<p>Design of work The auditor's work should be designed to provide the auditor with sufficient assurance to enable them to report by exception if the auditor concludes that they are not satisfied that the audited body has put in place proper arrangements to secure value for money in the use of its resources for the relevant period.</p> <p>Where required, the auditor should report their conclusion on the audited body's arrangements having regard to specific reporting criteria.</p>	<p>Design of work The auditor's work should be designed to provide the auditor with sufficient assurance to enable them to report to the audited body a commentary against the specified reporting criteria on the arrangements the body has in place to secure value for money through economic, efficient and effective use of its resources for the relevant period.</p> <p>Where the auditor is not satisfied in respect of arrangements to secure value for money, they should refer to this by exception in their audit report on the financial statements.</p>
<p>Assurance given In carrying out this work, the auditor is not required to satisfy themselves that the audited body has achieved value for money during the reporting period.</p>	<p>Assurance given No change in requirement. Our work remains arrangements based.</p>
<p>Other sources of relevant information Auditors need to consider:</p> <ul style="list-style-type: none"> • The audited body's governance statement; • Evidence that the audited body's arrangements were in place during the reporting period; • Evidence obtained from the auditor's other work; • The work of inspectorates and other bodies; and • Any other evidence source that the auditor regards as necessary to facilitate the performance of their statutory duties 	<p>Other sources of relevant information No change in requirement.</p>



Value for money – Code requirements

2015 Code requirement	2020 Code requirement
<p>Quantum of work Determining how much work to do on arrangements to secure value for money is a matter of auditor judgement.</p>	<p>Quantum of work Determining how much work to do on arrangements to secure value for money remains a matter of auditor judgement, but we expect the enhanced risk assessment process and reporting requirements to require more time to be input.</p>
<p>Reporting criteria The NAO’s supporting Auditor Guidance Note 3 defines proper arrangements as:</p> <ol style="list-style-type: none"> 1. Informed decision making <ul style="list-style-type: none"> • Acting in the public interest, through demonstrating and applying the principles and values of sound governance; • Understanding and using appropriate and reliable financial and performance information (including, where relevant, information from regulatory/monitoring bodies) to support informed decision making and performance management; Reliable and timely financial reporting that supports the delivery of strategic priorities; Managing risks effectively and maintaining a sound system of internal control; 2. Sustainable resource deployment <ul style="list-style-type: none"> • Planning finances effectively to support the sustainable delivery of strategic priorities and maintain statutory functions; • Managing and utilising assets effectively to support the delivery of strategic priorities; • Planning, organising and developing the workforce effectively to deliver strategic priorities; 3. Working with partners and other third parties <ul style="list-style-type: none"> • Working with third parties effectively to deliver strategic priorities; • Commissioning services effectively to support the delivery of strategic priorities; • Procuring supplies and services effectively to support the delivery of strategic priorities; 	<p>Reporting criteria The Code specifies that auditors need to focus on these reporting criteria:</p> <ol style="list-style-type: none"> 1. Governance: how the body ensures that it makes informed decisions and properly manages its risks. Specifically: <ul style="list-style-type: none"> • How the body monitors and assesses risk and how the body gains assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud; • How the body approaches and carries out its annual budget setting process; • 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; • 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 the audit committee; and • How the body monitors and ensures appropriate standards, such as meeting legislative/regulatory requirements and standards in terms of staff or member behaviour (such as gifts and hospitality or declarations/conflicts of interests). 2. Financial sustainability: how the body plans and manages its resources to ensure it can continue to deliver its services. Specifically: <ul style="list-style-type: none"> • How the body ensures that it identifies all the significant financial pressures that are relevant to its short and medium-term plans and builds these into them; • How the body plans to bridge its funding gaps and identifies achievable savings; • How the body plans finances to support the sustainable delivery of services in accordance with strategic and statutory priorities;



Value for money – Code requirements

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2015 Code requirement	2020 Code requirement
<p>Reporting criteria (continued) See previous page</p>	<p>Reporting criteria (continued)</p> <ul style="list-style-type: none"> • 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; and • how the body identifies and manages risks to financial resilience, e.g. unplanned changes in demand, including challenge of the assumptions underlying its plans. <p>3. Improving economy, efficiency and effectiveness: how the body uses information about its costs and performance to improve the way it manages and delivers its services. Specifically:</p> <ul style="list-style-type: none"> • How financial and performance information has been used to assess performance to identify areas for improvement; • How the body evaluates the services it provides to assess performance and identify areas for improvement; • 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; and • 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.
<p>Risk assessment As part of planning, auditors should consider the risk of reaching an incorrect conclusion in relation to the overall criterion.</p>	<p>Risk assessment The auditor will need to gather sufficient evidence and document their evaluation of it in order to enable them to draft their commentary under the three reporting criteria. This includes identifying and reporting on any significant weaknesses in those arrangements and making appropriate recommendations.</p>



Value for money – Code requirements

2015 Code requirement	2020 Code requirement
<p>Reporting The auditor should report to the audit committee the results of their work. The Annual Audit Letter should provide a clear, readily understandable commentary on the results of the auditor’s work and highlight any issues that the auditor wishes to draw to the attention of the public.</p>	<p>Reporting Auditors are required to report in a commentary each year under the specified reporting criteria and the Code expects that where auditors identify significant weaknesses in arrangements as part of their work, they will raise them promptly with the audit committee.</p> <p>The auditor’s annual report should bring together all of the auditor’s work over the year. A core element of the report will be the commentary in accordance with the specified reporting criteria.</p> <p>The commentary should be clear, readily understandable and highlight any issues that the auditor wishes to draw to the attention of the body or the wider public. This should include details of 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.</p>



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04

Audit materiality



Materiality

Materiality

For planning purposes, materiality for 2020/21 has been set at £12.43m. This represents 1.8% of the Council's gross expenditure on provision of services from the 2020/21 draft financial statements. We believe this to be the appropriate measurement basis as the Council is expenditure driven in delivering services to its residents as opposed to the income or other available measurement bases. We consider a range of 0.5% - 1.8% which is an industry benchmark. We have used the higher end of the range as the Council has historically maintained a reasonable level of revenue reserves, and achieved financial performance targets. This will be reassessed throughout the audit process. We have provided supplemental information about audit materiality in Appendix C.



*Figure adjusted for entries relating to revaluations and disposals of non-current assets.

We request that the Governance Committee confirm its understanding of, and agreement to, these materiality and reporting levels.

Key definitions

Planning materiality – the amount over which we anticipate misstatements would influence the economic decisions of a user of the financial statements.

Performance materiality – the amount we use to determine the extent of our audit procedures. We have set performance materiality at £9.32m which represents 75% of planning materiality. The rationale for using 75% is based on the anticipation of identifying few or no errors during the audit. This expectation has been built on our experience of the Council in the prior year.

Audit difference threshold – we propose that misstatements identified below this threshold are deemed clearly trivial. We will report to you all uncorrected misstatements over this amount relating to the comprehensive income and expenditure statement, balance sheet, and collection fund that have an effect on income or that relate to other comprehensive income.

Other uncorrected misstatements, such as reclassifications and misstatements in the cashflow statement and movement in reserves statement or disclosures, and corrected misstatements will be communicated to the extent that they merit the attention of the Governance Committee, or are important from a qualitative perspective.

Specific materiality – We can set a lower materiality for specific accounts disclosure e.g. remuneration disclosures, related party transactions and exit packages which reflects our understanding that an amount less than our materiality would influence the economic decisions of users of the financial statements in relation to this. Where we do this we will notify you.



05

Scope of our audit



Our Audit Process and Strategy

Objective and Scope of our Audit scoping

Under the Code of Audit Practice our principal objectives are to review and report on the Council's financial statements and arrangements for securing economy, efficiency and effectiveness in its use of resources to the extent required by the relevant legislation and the requirements of the Code.

We issue an audit report that covers:

1. Financial statement audit

Our objective is to form an opinion on the financial statements under International Standards on Auditing (UK).

We also perform other procedures as required by auditing, ethical and independence standards, the Code and other regulations. We outline below the procedures we will undertake during the course of our audit.

Procedures required by standards

- Addressing the risk of fraud and error;
- Significant disclosures included in the financial statements;
- Entity-wide controls;
- Reading other information contained in the financial statements and reporting whether it is inconsistent with our understanding and the financial statements; and
- Auditor independence.

Procedures required by the Code

- Reviewing, and reporting on as appropriate, other information published with the financial statements, including the Annual Governance Statement; and
- Reviewing and reporting on the Whole of Government Accounts return, in line with the instructions issued by the NAO.

2. Arrangements for securing economy, efficiency and effectiveness (value for money)

As outlined in Section 03, we are required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources and report a commentary on those arrangements.

Our Audit Process and Strategy (continued)

Audit Process Overview

Our audit involves:

- Identifying and understanding the key processes and internal controls; and
- Substantive tests of detail of transactions and amounts.

For 2020/21 we plan to follow a substantive approach to the audit as we have concluded this is the most efficient way to obtain the level of audit assurance required to conclude that the financial statements are not materially misstated.

Analytics

We will use our computer-based analytics tools to enable us to capture whole populations of your financial data, in particular journal entries. These tools:

- Help identify specific exceptions and anomalies which can then be subject to more traditional substantive audit tests; and
- Give greater likelihood of identifying errors than random sampling techniques.

We will report the findings from our process and analytics work, including any significant weaknesses or inefficiencies identified and recommendations for improvement, to management and the Governance Committee.

Internal audit

We will review internal audit plans and the results of their work. We will use this to inform our ongoing assessment of risks likely to impact our responsibilities.



06

Audit team



Audit team

Audit team structure:

Kevin Suter*
Associate Partner

David White
Manager

Albina Nayga
Senior

EY Real Estates

Specialist PWC
(consulting
actuary) and EY
Actuaries

* Key Audit Partner

Use of specialists

When auditing key judgements, we are often required to rely on the input and advice provided by specialists who have qualifications and expertise not possessed by the core audit team. The areas where either EY or third party specialists provide input for the current year audit are:

Area	Specialists
Valuation of Land and Buildings	Council's RICS registered internal PPE valuer EY Real Estates Team
Pensions disclosure	Aon Hewitt - Actuary to Hampshire Pension Fund PwC as consulting actuary appointed by the NAO, and EY internal pensions specialists

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In accordance with Auditing Standards, we will evaluate each specialist's professional competence and objectivity, considering their qualifications, experience and available resources, together with the independence of the individuals performing the work.

We also consider the work performed by the specialist in light of our knowledge of the Council's business and processes and our assessment of audit risk in the particular area. For example, we would typically perform the following procedures:

- Analyse source data and make inquiries as to the procedures used by the specialist to establish whether the source data is relevant and reliable;
- Assess the reasonableness of the assumptions and methods used;
- Consider the appropriateness of the timing of when the specialist carried out the work; and
- Assess whether the substance of the specialist's findings are properly reflected in the financial statements.



07 Audit timeline





Audit timeline

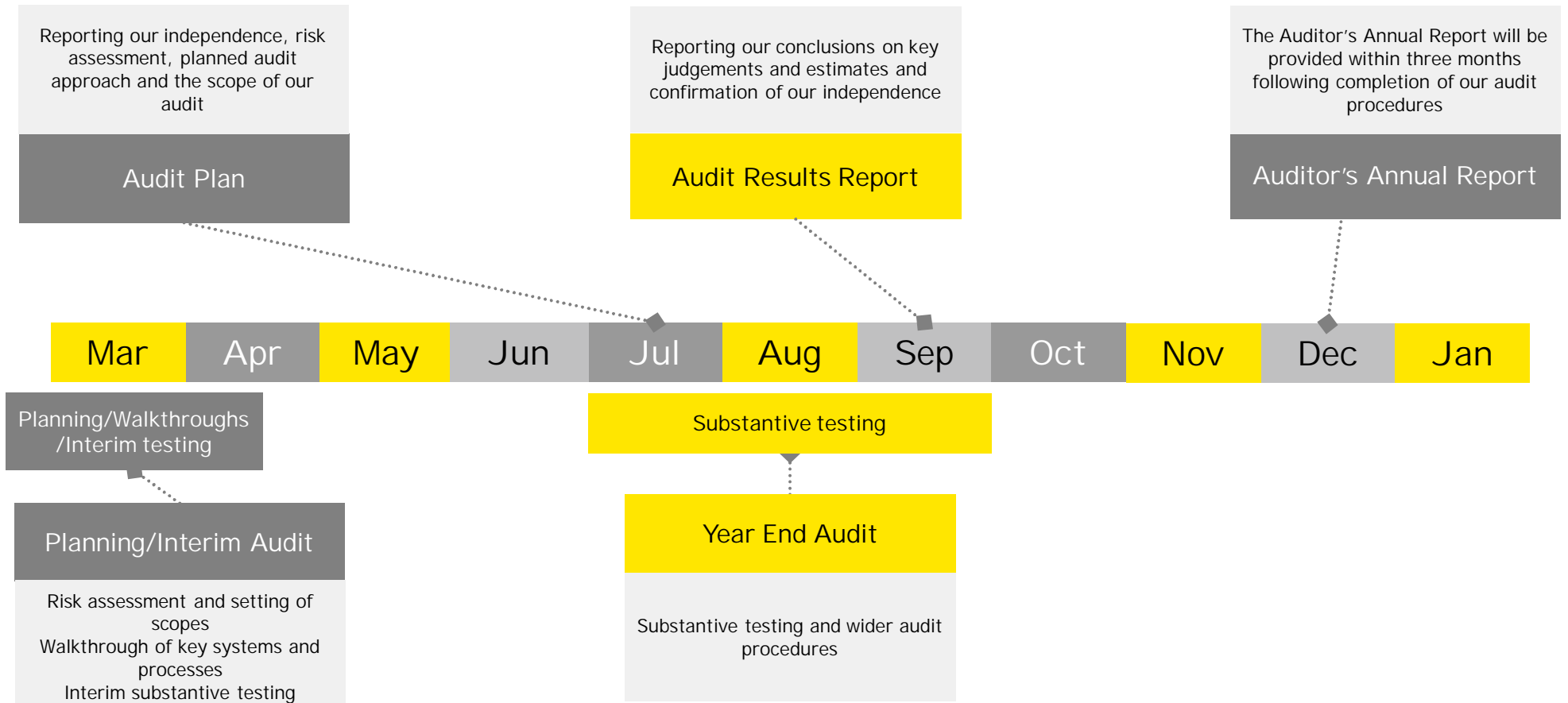
Timetable of communication and deliverables

Timeline

Below is a timetable showing the key stages of the audit and the deliverables we have agreed to provide to you through the audit cycle in 2020/21.

From time to time matters may arise that require immediate communication with the Governance Committee and we will discuss them with the Committee Chair as appropriate. We will also provide updates on corporate governance and regulatory matters as necessary.

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08

Independence



Introduction

The FRC Ethical Standard and ISA (UK) 260 “Communication of audit matters with those charged with governance”, requires us to communicate with you on a timely basis on all significant facts and matters that bear upon our integrity, objectivity and independence. The Ethical Standard, as revised in December 2019, requires that we communicate formally both at the planning stage and at the conclusion of the audit, as well as during the course of the audit if appropriate. The aim of these communications is to ensure full and fair disclosure by us to those charged with your governance on matters in which you have an interest.

Required communications

Planning stage	Final stage
<p>▶ The principal threats, if any, to objectivity and independence identified by Ernst & Young (EY) including consideration of all relationships between the you, your affiliates and directors and us;</p> <p>▶ The safeguards adopted and the reasons why they are considered to be effective, including any Engagement Quality review;</p> <p>▶ The overall assessment of threats and safeguards;</p> <p>▶ Information about the general policies and process within EY to maintain objectivity and independence.</p>	<p>▶ In order for you to assess the integrity, objectivity and independence of the firm and each covered person, we are required to provide a written disclosure of relationships (including the provision of non-audit services) that may bear on our integrity, objectivity and independence. This is required to have regard to relationships with the entity, its directors and senior management, its affiliates, and its connected parties and the threats to integrity or objectivity, including those that could compromise independence that these create. We are also required to disclose any safeguards that we have put in place and why they address such threats, together with any other information necessary to enable our objectivity and independence to be assessed;</p> <p>▶ Details of non-audit services provided and the fees charged in relation thereto;</p> <p>▶ Written confirmation that the firm and each covered person is independent and, if applicable, that any non-EY firms used in the group audit or external experts used have confirmed their independence to us;</p> <p>▶ Details of any non-audit/additional services to a UK PIE audit client where there are differences of professional opinion concerning the engagement between the Ethics Partner and Engagement Partner and where the final conclusion differs from the professional opinion of the Ethics Partner</p> <p>▶ Details of any inconsistencies between FRC Ethical Standard and your policy for the supply of non-audit services by EY and any apparent breach of that policy;</p> <p>▶ Details of all breaches of the IESBA Code of Ethics, the FRC Ethical Standard and professional standards, and of any safeguards applied and actions taken by EY to address any threats to independence; and</p> <p>▶ An opportunity to discuss auditor independence issues.</p>

In addition, during the course of the audit, we are required to communicate with you whenever any significant judgements are made about threats to objectivity and independence and the appropriateness of safeguards put in place, for example, when accepting an engagement to provide non-audit services.

We ensure that the total amount of fees that EY and our network firms have charged to you and your affiliates for the provision of services during the reporting period, analysed in appropriate categories, are disclosed.

Relationships, services and related threats and safeguards

We highlight the following significant facts and matters that may be reasonably considered to bear upon our objectivity and independence, including the principal threats, if any. We have adopted the safeguards noted below to mitigate these threats along with the reasons why they are considered to be effective. However we will only perform non-audit services if the service has been pre-approved in accordance with your policy.

Overall Assessment

Overall, we consider that the safeguards that have been adopted appropriately mitigate the principal threats identified and we therefore confirm that EY is independent and the objectivity and independence of Kevin Suter, your audit engagement partner, and the audit engagement team have not been compromised.

Self interest threats

A self interest threat arises when EY has financial or other interests in the Council. Examples include where we receive significant fees in respect of non-audit services; where we need to recover long outstanding fees; or where we enter into a business relationship with you. At the time of writing, there are no long outstanding fees.

We believe that it is appropriate for us to undertake permissible non-audit services and we will comply with the policies that you have approved.

None of the services are prohibited under the FRC's ES or the National Audit Office's Auditor Guidance Note 01 and the services have been approved in accordance with our policy on pre-approval.

The ratio of non audit fees to audits fees is not permitted to exceed 70% and this has not been exceeded, therefore no additional safeguards are required.

A self interest threat may also arise if members of our audit engagement team have objectives or are rewarded in relation to sales of non-audit services to you. We confirm that no member of our audit engagement team, including those from other service lines, has objectives or is rewarded in relation to sales to you, in compliance with Ethical Standard part 4.

There are no self interest threats at the date of this report

Self review threats

Self review threats arise when the results of a non-audit service performed by EY or others within the EY network are reflected in the amounts included or disclosed in the financial statements.

There are no self review threats at the date of this report.

Management threats

Partners and employees of EY are prohibited from taking decisions on behalf of management of the Council. Management threats may also arise during the provision of a non-audit service in relation to which management is required to make judgements or decision based on that work.

There are no management threats at the date of this report.

Relationships, services and related threats and safeguards

Other threats

Other threats, such as advocacy, familiarity or intimidation, may arise.

There are no other threats at the date of this report.

Other communications

EY Transparency Report 2020

Ernst & Young (EY) has policies and procedures that instil professional values as part of firm culture and ensure that the highest standards of objectivity, independence and integrity are maintained.

Details of the key policies and processes in place within EY for maintaining objectivity and independence can be found in our annual Transparency Report which the firm is required to publish by law. The most recent version of this Report is for the year ended 1 July 2020 and can be found here:

<https://www.ey.com/uk/en/about-us/ey-uk-transparency-report-2020>



09

Appendices



Appendix A

Fees

Public Sector Audit Appointments Ltd (PSAA) has published the fee scale for the audit of the 2020/21 accounts of opted-in principal local government and police bodies. This is defined as the fee required by auditors to meet statutory responsibilities under the Local Audit and Accountability Act 2014 in accordance with the requirements of the Code of Audit Practice and supporting guidance published by the National Audit Office, the financial reporting requirements set out in the Code of Practice on Local Authority Accounting published by CIPFA/LASAAC, and the professional standards applicable to auditors' work.

	Planned fee 2020/21	Scale fee 2020/21	Final Fee 2019/20
	£	£	£
PSAA Scale Fee	109,891	109,891	109,891
Scale fee rebasing (1)	68,235		68,235
Revised proposed scale fee	178,126		178,126
Scale fee variations (2,3)	tbc		27,752
Total fees	178,126		205,878

All fees exclude VAT

Notes:

(1) As detailed in our 2019/20 Annual Audit Letter we have submitted a proposed rebasing of the scale fee to reflect changes in work required to address professional and regulatory requirements and scope associated with risk. PSAA are yet to conclude on the rebasing.

(2) The 2019/20 Code work includes a proposed additional fee of £27,752, for additional work undertaken in relation to going concern, property valuations, VFM, new ledger system, CIES/EFA restatement and pensions. This additional fee is subject to approval from PSAA.

(3) As noted in the previous sections of this report, we have identified new and continuing risks for 2020/21 that are not within the scale fee, the impact of amended auditing standards, and the changing requirements for our VFM responsibilities. Additional work will be required, but we are unable to quantify the impact at this time.

The agreed fee presented is also based on the following assumptions:

- Officers meet the agreed timetable of deliverables;
- Our accounts opinion and value for money conclusion are unqualified;
- Appropriate quality of documentation is provided by the Council; and
- The Council has an effective control environment.

If any of the above assumptions prove to be unfounded, we will seek a variation to the agreed fee. This will be discussed with the Council in advance.



Fees for the auditor's consideration of correspondence from the public and formal objections will be charged in addition to the scale fee where applicable.

Appendix B

Required communications with the Governance Committee





We have detailed the communications that we must provide to the Governance Committee.

Our Reporting to you

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





Appendix B

Required communications with the Governance Committee (continued)

		 Our Reporting to you
Required communications	 What is reported?	  When and where
Going concern	<p>Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:</p> <ul style="list-style-type: none"> • Whether the events or conditions constitute a material uncertainty • Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements • The adequacy of related disclosures in the financial statements 	Audit results report
Misstatements	<ul style="list-style-type: none"> • Uncorrected misstatements and their effect on our audit opinion, unless prohibited by law or regulation • The effect of uncorrected misstatements related to prior periods • A request that any uncorrected misstatement be corrected • Corrected misstatements that are significant • Material misstatements corrected by management 	Audit results report
Fraud	<ul style="list-style-type: none"> • Enquiries of the Governance Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity • Any fraud that we have identified or information we have obtained that indicates that a fraud may exist • A discussion of any other matters related to fraud 	Audit results report
Related parties	<ul style="list-style-type: none"> • Significant matters arising during the audit in connection with the entity's related parties including, when applicable: • Non-disclosure by management • Inappropriate authorisation and approval of transactions • Disagreement over disclosures • Non-compliance with laws and regulations • Difficulty in identifying the party that ultimately controls the entity 	Audit results report

Appendix B

Required communications with the Governance Committee (continued)

		 Our Reporting to you
Required communications	 What is reported?	  When and where
Independence	<p>Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence</p> <p>Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as:</p> <ul style="list-style-type: none"> • The principal threats • Safeguards adopted and their effectiveness • An overall assessment of threats and safeguards • Information about the general policies and process within the firm to maintain objectivity and independence 	<p>Audit planning report</p> <p>Audit results report</p>
External confirmations	<ul style="list-style-type: none"> • Management's refusal for us to request confirmations • Inability to obtain relevant and reliable audit evidence from other procedures 	<p>Audit results report</p>
Consideration of laws and regulations	<ul style="list-style-type: none"> • Audit findings regarding non-compliance where the non-compliance is material and believed to be intentional. This communication is subject to compliance with legislation on tipping off • Enquiry of the Governance Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the Committee may be aware of 	<p>Audit results report</p>
Internal controls	<ul style="list-style-type: none"> • Significant deficiencies in internal controls identified during the audit 	<p>Audit results report</p>
Representations	Written representations we are requesting from management and/or those charged with governance	<p>Audit results report</p>
Material inconsistencies and misstatements	Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	<p>Audit results report</p>
Auditors report	<ul style="list-style-type: none"> • Any circumstances identified that affect the form and content of our auditor's report 	<p>Audit results report</p>
Fee Reporting	<ul style="list-style-type: none"> • Breakdown of fee information when the audit plan is agreed • Breakdown of fee information at the completion of the audit • Any non-audit work 	<p>Audit planning report</p> <p>Audit results report</p>

Additional audit information

Other required procedures during the course of the audit

In addition to the key areas of audit focus outlined in section 2, we have to perform other procedures as required by auditing, ethical and independence standards and other regulations. We outline the procedures below that we will undertake during the course of our audit.

Our responsibilities required by auditing standards

- Identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.
- Obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Council's internal control.
- Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Concluding on the appropriateness of management's use of the going concern basis of accounting.
- Evaluating the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Reading other information published with the financial statements, and reporting whether it is materially inconsistent with our understanding and the financial statements; and
- Maintaining auditor independence.

Purpose and evaluation of materiality

For the purposes of determining whether the accounts are free from material error, we define materiality as the magnitude of an omission or misstatement that, individually or in the aggregate, in light of the surrounding circumstances, could reasonably be expected to influence the economic decisions of the users of the financial statements. Our evaluation of it requires professional judgement and necessarily takes into account qualitative as well as quantitative considerations implicit in the definition. We would be happy to discuss with you your expectations regarding our detection of misstatements in the financial statements.

Materiality determines:

- The level of work performed on individual account balances and financial statement disclosures.

The amount we consider material at the end of the audit may differ from our initial determination. At this stage, however, it is not feasible to anticipate all of the circumstances that may ultimately influence our judgement about materiality. At the end of the audit we will form our final opinion by reference to all matters that could be significant to users of the accounts, including the total effect of the audit misstatements we identify, and our evaluation of materiality at that date.

About EY

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