



NOTICE OF MEETING

Meeting: Audit Committee

Date and Time: Tuesday 27 October 2020 7.00 pm

Place: Hart District Council Offices

Enquiries to: Martina Duffin
committeeservices@hart.gov.uk

Members: Makepeace-Browne (Chairman), Blewett, Delaney,
Wildsmith, Crookes, Smith and Southern

Joint Chief Executive

CIVIC OFFICES, HARLINGTON WAY
FLEET, HAMPSHIRE GU51 4AE

AGENDA

This meeting is being administered under the provisioning of the Local Authorities and Police and Crime Panels (Coronavirus) (Flexibility of Local Authority and Police and Crime Panel Meeting) (England and Wales) Regulations 2020. The Provision made in this regulation applies notwithstanding any prohibition or other restriction contained in the standing orders or any other rules of the Council governing the meeting and such prohibition or restriction had no effect.

This Agenda and associated appendices are provided in electronic form only and are published on the Hart District Council Website

1 MINUTES OF THE PREVIOUS MEETING (Pages 4 - 6)

The Minutes of the meeting held on 21 July 2020 are attached to be confirmed and signed as a correct record.

2 APOLOGIES FOR ABSENCE

To receive any apologies for absence from Members*.

***Note:** Members are asked to email Committee Services in advance of the meeting as soon as they become aware they will be absent.

3 DECLARATIONS OF INTEREST

To declare disclosable pecuniary, and any other, interests*.

***Note:** Members are asked to email Committee Services in advance of the meeting as soon as they become aware they may have an interest to declare.

4 CHAIRMAN'S ANNOUNCEMENTS

5 ANNUAL GOVERNANCE STATEMENT 2019-20 (Pages 7 - 29)

To inform the Committee of the content of the final Annual Governance Statement for 2019/20 and seek its approval.

RECOMMENDATION

That the Committee approves the Annual Governance Statement 2019/20.

6 AUDIT RESULTS REPORT 2019-20 (Pages 30 - 78)

The purpose of this report is to provide the Council's External Auditors with the opportunity to report the key findings of their audit to those charged with governance prior, to issuing their opinion on the 2019/20 Statement Accounts.

RECOMMENDATION

- 6.1 That Members agree to any uncorrected misstatements in Appendix B of the Annual Results Report (Ernst & Young LLP) remaining uncorrected.
- 6.2 That Members formally note the opinion of the Auditors on the draft Statement of Accounts.
- 6.3 That in all other respects the report of the External Auditors be noted.

7 STATEMENT OF ACCOUNTS AND LETTER OF REPRESENTATION (Pages 79 - 208)

To report to Members the position of the EY LLP audit of the statements and any amendments arising from the audit.

RECOMMENDATION

That delegated authority is given to the Chair of Audit Committee in consultation with the Head of Corporate Services for the final approval of the 2019/20 Statement of accounts and letter of representation.

8 INTERNAL AUDIT PROGRESS REPORT 2020/21 (Pages 209 - 223)

To note the Internal Audit work completed between July 2020 and November 2020.

Date of Despatch: Monday, 19 October 2020

AUDIT COMMITTEE

Date and Time: Tuesday 21 July 2020 at 7.00 pm

Place: Hart District Council Offices

Present:

Makepeace-Browne (Chairman), Blewett, Delaney, Wildsmith, Crookes, Smith and Southern

In attendance:

Officers:

1 ELECTION OF VICE-CHAIRMAN

Councillor Wildsmith was elected as Vice-Chairman for the year 2020/21.

2 MINUTES OF THE PREVIOUS MEETING

The Minutes of the meeting held on 3rd November 2019 were confirmed and signed as a correct record.

3 APOLOGIES FOR ABSENCE

None received.

4 CHAIRMAN'S ANNOUNCEMENTS

The Chairman introduced Emma Foy as the incumbent Section 151 Officer.

5 DECLARATIONS OF INTEREST

None declared.

6 INTERNAL AUDIT PLAN FOR 2020/2021

The Audit Manager updated the Committee on the Internal Audit Plan 2020/21 and the impact of Covid-19 to the service normally provided by Internal Audit, resulting in the Plan requiring amendment.

The Audit Manager highlighted the work carried out by the Team to administer the payment of Business Grants to small businesses during the Pandemic which is ongoing. The Committee thanked Neil and his Team for their work during this time.

Members queried the reduced amount of work for the Service Review on data management. The Committee was informed that data management will be looked at as part of the IT controls audit. Members also expressed concern in

the reduction of days in the Five Councils area which was due to an overall reduction in the number of days in the audit plan.

Also noted was the reduction of days allocated to the preparation of the Annual Governance Statement. The Audit Manager stated this is a result of better input from the Leadership Team.

DECISION

The Committee approved the Internal Audit Plan for 2020/2021.

7 EXTERNAL AUDIT PLAN FOR 2019/2020

The Council's External Auditors summarised the Audit Letter for the year ended 31st March 2019.

The Chairman of the Committee sought reassurance in relation to providing adequate resources and questioned the increase in audit fee proposed. The Chairman also asked for assurance that additional billing as in previous years would not occur.

The Committee was informed that additional requirements have driven a change to the baseline fee. The auditors also stated that they were unable to guarantee that there would not be additional billing however any additional fees will be discussed in advance with the Section 151 Officer.

The Committee questioned whether the issues in getting information from Capita (noted in November 2019) still occurred with the Mendip shared accountancy service and were informed that indications are that they are working to time and with the External Auditors.

The Section 151 Officer stated she has received the first draft of accounts from Mendip shared accountancy service, they have been reviewed and that we are waiting for a second draft. The Section 151 noted that the Section 151 Officer at Mendip had been replaced and the team is led by an experienced Section 151 Officer.

Committee thanked Kevin Suter and Justine Thorpe for their contribution.

8 ANNUAL AUDIT LETTER FOR 2018/2019

The Annual Audit Letter for the year ended 31 March 2019 was noted.

9 ANNUAL INTERNAL AUDIT REPORT FOR 2019/2020

The Audit Manager highlighted the key findings from the Annual Internal Audit Report for the year 2019/2020.

The Chairman praised the Audit Team for their work and noted that the Heads of Service will be held accountable for any discrepancies that may fall into their area. The Committee asked if there had been an improvement in the Accounts Payable challenge, credit card usage and payroll identified at the last meeting.

The Audit Manager stated that correct and responsible credit card usage has been reinforced and currently the Audit Team are not aware of any misuse of this method of payment. Accounts Payable/Purchase Orders is being addressed for a more consistent approach. Payroll is now back in house and HDC will have greater control by the end of the year.

The Committee reflected that the Covid-19 period will have necessitated more use of credit cards. The Audit Manager shared this concern as it may be proved that quick decisions made as the Pandemic hit could have been done better. Procurement is being monitored carefully in the next few weeks. The Committee asked if HDC will have adequate resources now that we have come to the end of the Capita contract. HDC will be identifying what roles may be required in the future and are currently seeking to appoint a HR Specialist.

The Section 151 Officer informed the Committee that she has requested Mendip attend the Audit Committee in November. Arrangements are in place to ensure continuity and resilience in the short term.

DECISION

That the Internal Audit Report for the year 2019/2020 be accepted.

(Cllr Crookes left at 7.38 due to Internet failure)

10 DRAFT STATEMENT OF ACCOUNTS FOR 2019/2020

An initial draft statement of accounts for 2019/2020 has been received from the Mendip Team which will be signed off by The Section 151 Officer in August. The Accounts will be circulated to the Committee at the beginning of next week and following that there will be a series of workshops to run through the Accounts with Members before the final Audit Committee. The Committee agreed that the workshops would be of benefit to help their understanding.

The meeting closed at 7.55 pm

AUDIT COMMITTEE

DATE OF MEETING: 27 OCTOBER 2020

TITLE OF REPORT: ANNUAL GOVERNANCE STATEMENT 2019/20

Report of: Joint Chief Executive and Monitoring Officer

Cabinet Member: Councillor: James Radley, Finance and Corporate Services

1 PURPOSE OF REPORT

1.1 To inform the Committee of the content of the final Annual Governance Statement for 2019/20 and seek its approval.

2 OFFICER RECOMMENDATION

2.1 That the Committee approves the Annual Governance Statement 2019/20.

3 BACKGROUND

3.1 The Accounts and Audit Regulations 2015, require Local Authorities to prepare and publish an Annual Governance Statement on an annual basis.

3.2 The Statement attached as Appendix I outlines the governance arrangements that the Council had in place during 2018/19. It has been prepared in accordance with the revised CIPFA/SOLACE Framework “Delivering Good Governance” 2016.

4 FINANCIAL IMPLICATIONS

4.1 There are no direct financial implications arising from this report

Contact: Daryl Phillips, Ext 4492, daryl.phillips@hart.gov.uk



ANNUAL GOVERNANCE STATEMENT 2019/20

1.0 Scope of Responsibility

Hart District Council is responsible for ensuring that it conducts its business in accordance with the law, proper standards and that it has effective stewardship of public money. There is a statutory requirement for the Council to prepare an Annual Governance Statement. This statement has been produced in accordance with the Delivering Good Governance in Local Government Framework 2016.

2.0 The Governance Framework

The Local Code of Corporate Governance sets out the key principles that need to be in place to demonstrate effective governance. The Code takes into account the requirements of the CIPFA/SOLACE Framework Delivering Good Governance 2016.

The Council recognises that it is responsible for ensuring there is a sound system of internal control in place and, that it is accountable for its actions to the community it serves. The Annual Governance Statement explains to the community, taxpayers, service users and other stakeholders what our governance arrangements are and how they have been reviewed during the year.

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The CIPFA SOLACE Core Principles of Good Governance are:

- Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law
- Ensuring openness and comprehensive stakeholder engagement
- Defining outcomes in terms of sustainable economic, social and, environmental benefits
- Determining the interventions necessary to optimise the achievement of intended outcomes
- Developing the entity's capacity, including the capability of its leadership and the individuals within it
- Managing risks and performance through robust internal control and strong financial management
- Implementing good practices in transparency, reporting, and audit to deliver effective accountability

Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law		
The Councils commitment to good governance.	How it will be achieved	Further information
<p>The Council has clear, transparent decision-making processes which align with our ethical values. Decisions that have been made are lawful and Codes of Conduct set out expectations on behaviour and integrity.</p>	<ul style="list-style-type: none"> ➤ Codes of Conduct are in place for both members and officers. These are used to promote the standards of behaviour expected of both members and employees. ➤ All members are required to sign a declaration of interests annually, these are readily available on our website. They are also required to declare any such interests at public meetings prior to the relevant item being discussed. ➤ Member training is provided and an appropriate induction process was in place during 2019/20 for new members. ➤ The Standards Committee is in place to ensure ethical behaviour is maintained. ➤ Statutory Officers are in post. These being the Joint Chief Executives, one of whom acts as the Head of Paid Service, the other as the Monitoring Officer. The Head of Corporate Services is the Section 151 Officer. ➤ The Constitution and Scheme of Delegation define the roles and responsibilities of officers and members, and set out the rules on how the Council conducts its business. The Constitution is subject to an on-going review by senior management to ensure it is fit for purpose, any amendments will require the approval of Full Council. 	<p>Member Code of Conduct</p> <p>Officer Code of Conduct</p> <p>Declaration of Interest Forms</p> <p>Hart Leadership Team</p> <p>Constitution</p>

	<ul style="list-style-type: none"> ➤ Hart Values are in place and describe how the Council expects employees and members to behave when carrying out their roles and, how we expect our residents and stakeholders to be treated. ➤ The Council has measures to address breaches of its legal and regulatory powers. The Council’s Monitoring Officer) has statutory reporting duties in respect of unlawful decision making and maladministration. 	<p>Vision/Values and Governance</p>
<p>Ensuring openness and comprehensive stakeholder engagement</p>		
<p>The Councils commitment to good governance.</p>	<p>How it will be achieved</p>	<p>Further information</p>
<p>The Council exists to serve its residents and local businesses. We work with a wide variety of stakeholders and work effectively in partnership. Consultation and engagement mechanisms are in place.</p>	<ul style="list-style-type: none"> ➤ The Council will work with residents, businesses, communities and partners to help us prioritise what we do, and to have a say over our approach. ➤ During 2019/20 all Council meetings have been conducted in public, decisions have been properly recorded and are in the public domain. This ensures transparency and that the impact and consequences of decisions are clearly stated ➤ Minutes and Agendas for all meetings provide a formal record of decisions that are made and are readily available on our website. 	<p>Council Meetings</p> <p>Council Meetings</p>

	<ul style="list-style-type: none"> ➤ Hart District Council is committed to working with residents, businesses and charities to improve the services it delivers across the district. Consultation is an essential part of this and we need to know your thoughts on changes that we intend to make. ➤ During 2019/20 the Council continued its engagement with the business community to help build effective external partnerships. We have issued a monthly e-news bulletin and have attended or hosted regular networking and business events within the community. ➤ The Council provides a flexible working space as a way of supporting local small businesses. ➤ We use social media including Twitter, Facebook, as a way of engaging with the community and promoting awareness of services we provide. All our social media updates are provided by our Communications Team to ensure a consistent approach is taken. ➤ The Council encourages feedback on the services it provides. We have a feedback form on our website and it is included on all generic email signatures. ➤ Governance arrangements are in place where we have either outsourced services or where we provide services in partnership with other councils. 	<p><u>Consultations</u></p> <p><u>Contact Us</u></p>
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Partner/Service Provided	Governance
Capita (Finance, IT, Revenues and Benefits, HR, Payroll, Land Charges, Customer Services).	5 Councils Management Board Central Client Team Inter Authority Agreement
Everyone Active (Leisure Services)	Monthly Management Meeting Leisure Client Officer
Basingstoke and Deane Borough Council (Legal Services, Waste, Licensing, Grounds Maintenance).	Joint Management Board Joint Waste Board with Serco
Rushmoor Borough Council (CCTV, Building Control)	Joint Governance Group

- There are regular governance meetings for each of the above workstreams. These meetings ensure services are provided as expected and that roles and responsibilities are clear.

Defining outcomes in terms of sustainable economic, social and environmental benefits		
The Councils commitment to good governance.	How it will be achieved	Further information
<p>The Council works with communities to plan outcomes. In setting policies and strategies, the Council takes account of sustainable economic, social and environmental benefits.</p>	<ul style="list-style-type: none"> ➤ A Corporate Plan is in place and is for the period 2017 – 2022. The plan has been developed with members and outlines the priorities of the Council. ➤ The Council has established a long term vision, covering the period 2020 – 2040. ➤ The Council’s Medium Term Financial Strategy was approved by Cabinet in December 2019. ➤ The Council uses a robust budget process to ensure financial resources are allocated to corporate priorities. ➤ A performance management framework is in place that enables management and members to access information on service delivery and monitor progress against planned objectives, including the Corporate Plan. Service Plans are linked to the Corporate Plan, performance against plans are reported to Overview and Scrutiny. ➤ The Council makes the best use of resources and will always consider different options in the way services are delivered to those that require them. ➤ The Council has set out an Equality Policy which identifies how we will work towards agreed equality objectives. 	<p>Hart Corporate Plan 2017-2022</p> <p>Long Term Vision</p> <p>Budget and Medium Term Financial Strategy 2020-21</p> <p>Hart Performance</p> <p>Equality Policy 2017-2021</p>

	<p>Where required Equality Impact Assessments are also carried out.</p>	
<p>Determining the interventions necessary to optimise the achievement of intended outcomes.</p>		
<p>The Councils commitment to good governance.</p>	<p>How it will be achieved</p>	<p>Further information</p>
<p>The Council takes decisions on interventions based on its clear vision for services, engaging with communities, stakeholders and the expertise of professional service officers.</p>	<ul style="list-style-type: none"> ➤ A performance framework exists to monitor progress on intended outcomes, it is also used to support our decision making process. Performance indicators have been reported to Overview and Scrutiny during 2019/20. ➤ Service Plans are in place that outline clear visions for the services we provide. Service Plans also help ensure resources are allocated to corporate priorities. The content and reporting of service plans was reviewed during 2019/20. ➤ The Council’s budget process ensures financial resources are aligned to corporate priorities. ➤ The Scheme of Delegation clearly outlines who is responsible for the decision making process, and where responsibilities lie for the functions of the Council. The Scheme of Delegation is contained within the Constitution. 	<p>Service Plans 2020/21</p> <p>Constitution</p>

	<ul style="list-style-type: none"> ➤ Decision makers receive objective analysis, information and risk assessments on options that are available to achieve intended outcomes. ➤ The Council makes use of collaborative and joint working, where appropriate. Community benefit and improved resilience is often a key consideration in how services are procured. 	
Developing the entity’s capacity, including the capability of its leadership and the individuals within it.		
The Councils commitment to good governance.	How it will be achieved	Further information
<p>The Council maintains an effective relationship between the Leader of the Council and the Joint Chief executives. We encourage the development of all employees to ensure they are able to carry out their roles effectively.</p>	<ul style="list-style-type: none"> ➤ There are regular meetings between the Joint Chief Executives and the Leader of the Council. Similar meetings take place between Heads of Service and Portfolio Holders. These have ensured an effective line of communication exists between senior managers and members. ➤ Member and Officer training programmes are in place. The Corporate Training Programme is designed to target areas of training that were identified from personal development reviews. ➤ Induction Training has been provided to new employees during 2019/20. Training is also provided to new members. 	

	<ul style="list-style-type: none"> ➤ Mandatory training has been provided to all employees during the year on GDPR, Cyber Security, Fraud Awareness and Equality and Diversity. ➤ Arrangements are in place to maintain the health and wellbeing of the workforce. A Wellbeing Survey was used during 2019/20, to assess whether employees are provided with an appropriate level of support regarding their health and wellbeing. ➤ The performance framework includes personal development reviews (PDR's) for individuals. These are linked to both Corporate and Service Plans. Training needs to all employees are taken into account as part of the PDR process. ➤ Roles and responsibilities of senior management are clearly identified. The Scheme of Delegation makes it clear the protocols that must be followed for the decision making process. ➤ An appropriate protocol is in place to enable Elected Members and Senior Officers to have a shared understanding of their respective roles. ➤ The Joint Chief Executives provide regular updates to employees on what is going on within the council. These include a question and answer session. 	<p>Constitution</p>
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Managing risks and performance through robust internal control and strong financial management.		
The Councils commitment to good governance.	How it will be achieved	Further information
<p>The Council maintains an appropriate internal control framework, Financial management is robust to ensure council spending is within agreed budgets.</p>	<ul style="list-style-type: none"> ➤ The Council has a risk management framework in place that identifies and reports risk and how it is being managed. ➤ The effectiveness of the risk management framework is reported to the Audit Committee half yearly ➤ The content of the Corporate risk Register is reviewed by Leadership Team on a regular basis. It is reported to Overview and Scrutiny half yearly. ➤ As part of the process for approving the budget for the council, appropriate statements were made by the Head of Corporate Services (Section 151 Officer), regarding financial risk, and the outlook for the short to medium term. ➤ The system of internal control is reviewed on an on-going basis by Internal Audit and management. An opinion on the effectiveness of the internal control system for 2019/20 will be reported to the Audit Committee in July 2020. ➤ The Head of Corporate Services is responsible for the financial management of the council and is the Section 151 Officer. We have a strong culture of good financial management which ensures public money is properly safeguarded. 	<p>Risk Management Policy</p> <p>Corporate Risk Register Update</p> <p>Budget Report</p>

	<ul style="list-style-type: none"> ➤ A Medium Term Financial Plan is in place which was reported to Overview and Scrutiny in December 2019. The plan outlines the financial outlook for the Council until 2021. ➤ Robust budget monitoring arrangements for both capital and revenue are in place with budget reporting at both senior management and members. ➤ An appropriate culture is in place to help manage the risk of fraud and we take a positive approach to raising fraud awareness. Up to date policies for both Fraud and Corruption and Whistleblowing are readily available to all officers. ➤ A fraud risk assessment was carried out by Internal Audit during 2019/20, to consider the effectiveness of controls in place to manage the risk of fraud. The conclusions of this review are reported to management and the Audit Committee. 	<p>Medium Term Financial Plan</p> <p>Budget Monitoring Report - Cabinet March 20</p> <p>Fraud and Corruption Strategy 2019 - 2021</p> <p>Fraud and Corruption Policy Reviews April 18</p> <p>Whistleblowing Policy July 2018</p> <p>Fraud Risk Assessment - 19/20</p>
Implementing good practice in transparency, reporting and audit to deliver effective accountability		
The Councils commitment to good governance.	How it will be achieved	Further information
The Council has transparent processes in place to ensure our decisions are in the public	<ul style="list-style-type: none"> ➤ Information on the decision making process is readily available to all stakeholders via the Council's website. 	<p>Decision Making Process</p>

<p>domain through our website, financial reporting is robust.</p>	<ul style="list-style-type: none"> ➤ An appropriate committee structure is in place to ensure there is an effective decision making process and, that all relevant information is reported in a timely manner to those making key decisions. Key decisions are subject to an appropriate level of scrutiny. ➤ An Audit Committee is in place. The committee reviews the work of both Internal and External Audit, approving the Statement of Accounts and providing assurance on the Council's governance arrangements. ➤ A Local Code of Corporate Governance is in place and was reviewed in 2019 to confirm it complies with the requirements of The CIPFA/SOLACE Framework 2016. ➤ The Council produces an Annual Governance Statement, which explains how we comply with CIPFA's "Delivering Good Governance in Local Government (2016)". ➤ Internal Audit will review the internal control framework on an on-going basis, in particular the key financial systems. Findings and risks identified during reviews are reported to both senior management and the Audit Committee. ➤ Internal Audit will provide an objective opinion on the internal control framework that was in place for 2019/20. ➤ External Audit will review the arrangements that the Council has in place to secure value for money. They will also provide an opinion on the accuracy and completeness of the Council's Statement of Accounts. 	<p>Local Code of Corporate Governance</p>
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REVIEW OF EFFECTIVENESS

Management are responsible for ensuring there is an effective governance framework in place, an appropriate review process must also exist to ensure that the framework remains effective. A summary of each element of the review process is:

FULL COUNCIL

- a) Received minutes of Cabinet, Overview and Scrutiny and Audit Committees.
- b) Received regular reports from the Joint Chief Executive on the work of the council.
- c) Responded to regular questions from the public on a wide variety of issues. This demonstrates that the Council does listen to the views of residents.
- d) Approved the annual budget for 2020/21.
- e) Received updates from members who represent the council on outside bodies

CABINET

Cabinet carried out the role of the executive as required by the Council's constitution. It is the main decision making body. In terms of reviewing and monitoring the governance framework during 2019/20 Cabinet has:

- a) Received regular reports throughout the on the Council's financial position.
- b) Approved amendments to policies within its terms of reference. This ensures our policies are up to date and reflect good practice.
- c) In April 2019 Service Plans for 2019/20 were reviewed to ensure the content of plans aligned with the Corporate Plan and priorities.
- d) In September 2019 Cabinet provided input to the Hart Vision 2040.

- e) Reviewed key strategies and policies through the year.
- f) In December 2019 reviewed the Medium Term Financial Strategy for 2020/21.
- g) In February 2020 Cabinet approved the budget for 2020/21.

OVERVIEW & SCRUTINY

In terms of reviewing and monitoring the governance framework during 2019/20 the Overview and Scrutiny Committee has:

- a) Received half yearly reports on the content of the Corporate Risk Register to review and challenge the content.
- b) Made comments to Cabinet on the content of Service Plans for 2019/20.
- c) Received reports from representatives on Outside Bodies on their involvement and make any recommendations to Cabinet on the continuing value.
- d) Received regular reports during the year on council performance.
- e) In August 2019 the committee reviewed guidance on Overview and Scrutiny in Local and Combined Authorities to provide assurance that the committee is able to comply with good practice.
- e) Received the annual report from the Ombudsman.
- f) Reviewed regular budget monitoring information. This is part of our budgetary control process, which has remained effective during 2019/20.
- g) In January 2020 the committee reviewed the content of the draft budget for 2019/20, prior to approval by Full Council.
- h) Been kept properly informed of the Cabinet Work Programme. This allows the committee to fulfil its role of holding decision makers to account

AUDIT COMMITTEE

The Audit Committee is responsible for providing effective assurance on the adequacy of the governance framework. In terms of reviewing the governance framework for 2019/20, the Audit Committee has:

- a) Reviewed the Council's Annual Governance Statement, to confirm the content accurately reflects the council's governance framework.
- b) Received regular reports on the work carried out by the Council's External Auditors.
- c) Received regular reports on the work of Internal Audit. This has allowed the committee to monitor their work and ensure the service is able to substantially deliver the audit plan.
- d) Received the Annual Report of the Internal Audit Manager. This provides the committee with the Audit Managers opinion on the effectiveness of the Council's internal control framework.
- e) Approved the Statement of Accounts
- f) Reviewed regular reports on the effectiveness of the Council's risk management arrangements and challenged the framework to ensure it remains fit for purpose.

Role of the Monitoring Officer

The Monitoring Officer has ensured that during 2019/20 the Council has complied with the law, and, that high standards of conduct have been maintained by both officers and members. The Monitoring Officer has managed any amendments to the Constitution and has ensured the decision making process has been transparent.

Role of the Section 151 Officer

During 2019/20, The Section 151 Officer has had in place an appropriate internal control framework that has ensured financial transactions have been properly accounted for. The Section 151 officer is a member of Leadership Team and has ensured financial implications are taken into account in the delivery of corporate objectives.

Internal Audit

During 2019/20 Internal Audit have reviewed of the key controls in place for all of the key financial systems. Their work substantially complies with the requirements of the Public Sector Internal Audit Standards. Planned work was linked to corporate priorities and they have facilitated the Council's risk management arrangements. Although it should be noted that due to the impact of COVID-19, internal audit were not able to complete their planned work for 2019/20. Internal Audit have provided a half yearly risk update reports to both the Audit Committee and Overview and Scrutiny.

The annual opinion on the internal control framework during 2018/19, provided by the Audit Manager is considered to be satisfactory, however, there were qualifications to this opinion. These qualifications were based on audit reviews where a limited assurance opinion was provided on the effectiveness of the internal controls in place, a summary of these are shown below:

Area of Review	Reasons for Limited Opinion
Accounts Payable	Financial Regulations need to be reviewed and updated. The use of purchase orders does not always comply with the purchase to pay process. Procurement rules need to be reviewed and updated.
Accounts Receivable	Recovery action is not effective in that all options are not used in a timely manner.
Credit Card Usage	Credit Card Policy was not always adhered to. Supporting information was not always retained for all purchases.
Housing Benefits	Processing of new claims did not meet agreed performance targets. The recovery of overpayments is not effective.
Payroll	Data Management weaknesses Up to date and readily available key HR policies were not always easy to find.
Main Accounting	Integrity of data conversion from the legacy finance system to the new version of Integra. 2019/20 opening balances had not been brought forward into the accounts until March 2020.
Rent Deposits	Inconsistent approach to manage outstanding balances.

External Audit

The Council's External Auditors provided an unqualified opinion on the 2018/19 Statements of Accounts. They also provided an unqualified opinion on the arrangements in place to secure value for money and Housing Benefit Grant Claim.

Governance Action Plan 2019/20				
	Issue	Actions to be Taken	Responsible Officer	Target Date
1.	Ensure there is an appropriate process in place to manage risks linked to the transition of services previously provided by Capita to the council.	Risk meeting arranged for July 2020 and then monthly onwards to review, manage and mitigate ongoing risks.	Head of Corporate Services	August 2020
2.	Finalise the contract between Mendip DC and the Council for the provision of Financial Services.	The details of the contract are currently being reviewed.	Head of Corporate Services.	September 2020
3.	Ensure agreed actions are taken to resolve high risk internal control weaknesses identified during internal audit reviews during 2019/20.	High Risk Internal Control Weaknesses will form part of the formal Leadership Team meeting agenda and will be included in Service Plans for implementation.	Head of Corporate Services	September 2020
4.	Review Financial Regulations and Contract Standing Orders to ensure they reflect good practice and the current structure of the council.	Contract Standing Orders and Financial Regulations have been reviewed and will be presented to Members for approval in September 2020 for approval.	Head of Corporate Services	September 2020

5.	Ensure Service Plans adequately reflect risks within each service and that appropriate mitigations are identified to manage them.	Service Plan Template to be reviewed to ensure a section on risk is included. This will enable an improved reporting process.	All Heads of Service	September 2020
6.	That the governance arrangements for the Joint Waste Contract are stabilised.	Hart District Council and Basingstoke and Deane Borough Council are in active discussions regarding the KPI's and outcomes that are desired from the Joint Waste Contract. As part of this, they are seeking externally commissioned expert advice, as appropriate. This builds on the existing structures and mechanisms in place to ensure the effective management and contract oversight that is built into the Inter Authority Agreement between the two respective Authorities.	Head of Environmental and Technical Services	September 2020
7.	Ensure key policies are up to date and that the current version is readily available.	A review of key policies will be carried out, this will be part of the Web Content Accessibility Review which is due to be completed by September 2020.	All Heads of Service	September 2020

**Councillor Dave Neighbour
Leader of The Council**

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Date

Daryl Phillips, Joint Chief Executive

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Date

Patricia Hughes, Joint Chief Executive

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Date

AUDIT COMMITTEE

DATE OF MEETING: 27 OCTOBER 2020

TITLE OF REPORT: AUDIT RESULTS REPORT 2019/20

Report of: Head of Corporate Services and S.151 Officer

Cabinet Member: Councillor James Radley, Finance and Corporate Services

1. PURPOSE OF REPORT

1.1 The purpose of this report is to provide the Council's External Auditors with the opportunity to report the key findings of their audit to those charged with governance prior, to issuing their opinion on the 2019/20 Statement Accounts. The Draft External Audit Report 2019/20 is to follow and will be issued and attached at **APPENDIX 1**.

2. OFFICER RECOMMENDATION

2.1 That Members agree to any uncorrected misstatements in Appendix B of the Annual Results Report (**APPENDIX 1**) remaining uncorrected.

2.2 That Members formally note the opinion of the Auditors on the draft Statement of Accounts.

2.3 That in all other respects the report of the External Auditors be noted.

3. BACKGROUND AND SUMMARY OF KEY ISSUES

3.1 Ernst & Young LLP, the Council's External Auditors, have completed the majority of their work on the audit of the Council's 2019/20 Statement of Accounts. However, there are some areas which are still outstanding which have prevented the final report being issued. This report summarises the results of their work to date.

3.2 Detailed findings of the audit and recommended actions are provided in **APPENDIX 1** to those charged with governance. External Audit representatives will be at the meeting to discuss their findings in detail.

4. FINANCIAL AND RESOURCE IMPLICATIONS

4.1 The report summarises areas that required additional or special audit procedures in response to areas of specific risk.

Contact: Emma Foy, emma.foy@hart.gov.uk

APPENDICES

Appendix 1 – AUDIT RESULTS REPORT

Hart District Council

Audit Results Report

Year ended 31 March 2020

October 2020

20 October 2020



Dear Audit Committee Members

We are pleased to attach our audit results report for the forthcoming meeting of the Audit Committee. This report summarises our audit progress and findings in relation to the audit of Hart District Council for 2019/20.

We have substantially completed our audit of Hart District Council for the year ended 31 March 2020. As set out in section 1, some issues have arisen as a result of covid-19 which we have taken account of in our audit. I have discussed the status of our audit with the Head of Corporate Resources (S151 Officer) up to the date of issuing this report.

Subject to concluding the outstanding matters listed in our report, we confirm that we expect to issue an unqualified audit opinion on the financial statements in the form at section 3. We also have no matters to report to date on your arrangements to secure economy, efficiency and effectiveness in your use of resources. We will finalise our conclusions once we have completed all our outstanding work.

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

We would like to thank your staff for their help during the engagement. We welcome the opportunity to discuss the contents of this report with you at the Audit Committee meeting on 27 October 2020 .

Yours faithfully

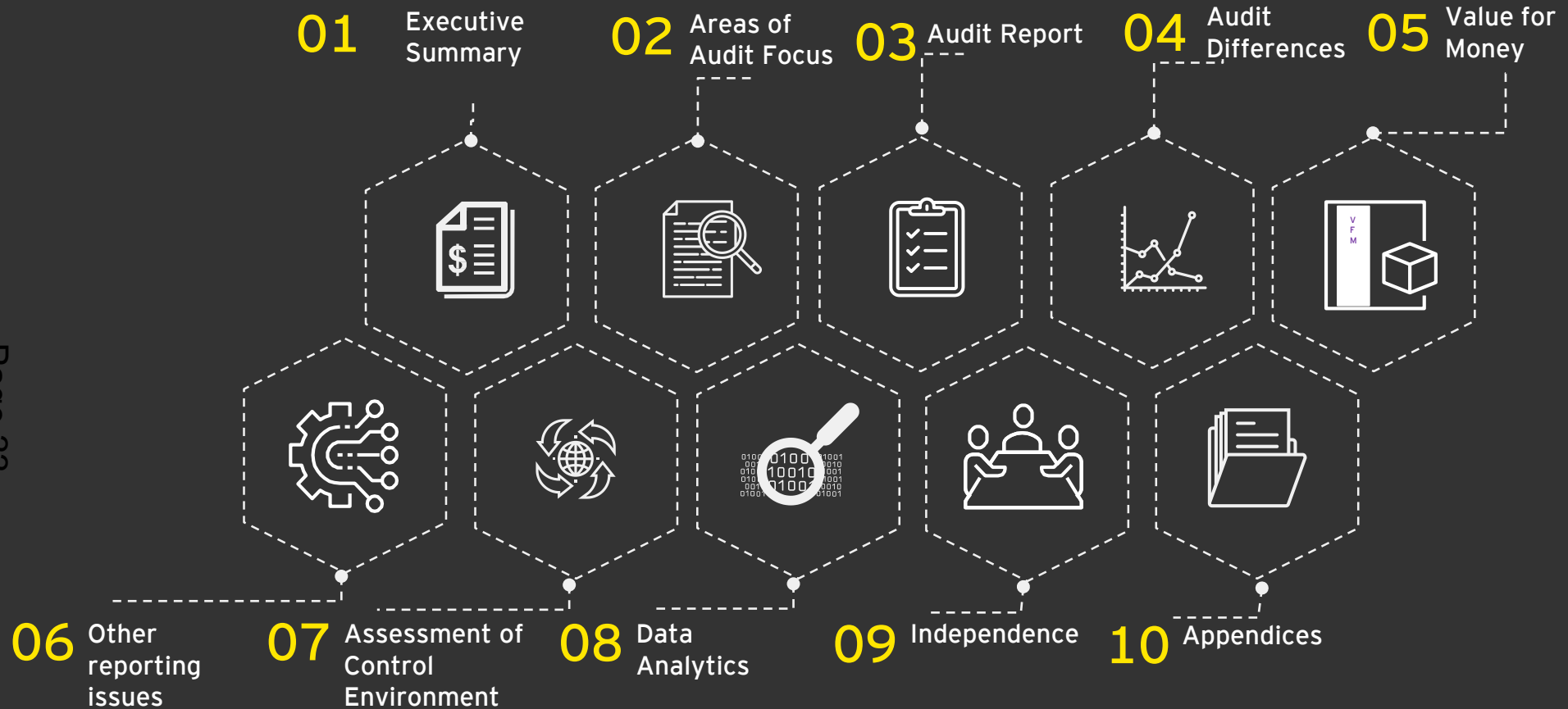
Kevin Suter

Associate Partner

For and on behalf of Ernst & Young LLP
Encl

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Public Sector Audit Appointments Ltd (PSAA) have issued a 'Statement of responsibilities of auditors and audited bodies'. It is available from the Chief Executive of each audited body and via the PSAA website (www.psa.co.uk). This Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

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

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

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



01

Executive Summary

Executive Summary

Scope update

In our audit planning report presented at the 4 March 2020 Audit Committee meeting, we provided you with an overview of our audit scope and approach for the audit of the financial statements. We carried out our audit in accordance with this plan, with the following exceptions:

Changes to reporting timescales

As a result of COVID-19, new regulations, the Accounts and Audit (Coronavirus) (Amendment) Regulations 2020 No. 404, have been published and came into force on 30 April 2020. This announced a change to publication date for final, audited accounts from 31 July to 30 November 2020 for all relevant authorities.

Changes to our risk assessment as a result of Covid-19

- ▶ **Valuation of land and buildings**- The Royal Institute of Chartered Surveyors (RICS), the body setting the standards for property valuations, has issued guidance to valuers highlighting that the uncertain impact of Covid-19 on markets might cause a valuer to conclude that there is a material uncertainty. Caveats around this material uncertainty have been included in the year-end valuation reports produced by the Authority's external valuer. We consider that the material uncertainties disclosed by the valuer gave rise to an additional risk relating to disclosures on the valuation of property, plant and equipment and investment properties.
- ▶ **Disclosures on Going Concern** - Financial plans for 2020/21 and medium term financial plans will need revision for Covid-19. We considered the unpredictability of the current environment gave rise to a risk that the Local Authority would not appropriately disclose the key factors relating to going concern, underpinned by management's assessment with particular reference to Covid-19 and the Local Authority's actual year end financial position and performance. Additional consultation requirements concerning the impact on auditor reports because of Covid-19, mainly focused on Going Concern, have also been put in place by EY.
- ▶ **Events after the balance sheet date** - We identified an increased risk that further events after the balance sheet date concerning the current Covid-19 pandemic will need to be disclosed. The amount of detail required in the disclosure needed to reflect the specific circumstances of the Local Authority.
- ▶ **Adoption of IFRS16** - The adoption of IFRS 16 by CIPFA/LASAAC as the basis for preparation of Local Authority Financial Statements has been deferred until 1 April 2021. The Authority will therefore no longer be required to undertake an impact assessment, and disclosure of the impact of the standard in the financial statements does not now need to be financially quantified in 2019/20. We therefore no longer consider this to be an area of audit focus for 2019/20.

Changes in materiality. We updated our planning materiality assessment using the draft financial statements and have also reconsidered our risk assessment. Based on our materiality measure of gross expenditure on provision of services, we have updated our overall materiality assessment to £914k (*Audit Planning Report – £902k*).

- ▶ This results in an updated performance materiality, at 50% of overall materiality, of £457k (*Audit Planning Report - £451k*), and an updated threshold for reporting misstatements of £46k (*Audit Planning Report - £45k*).
- ▶ The basis of our assessment has remained consistent with prior years at 2% of gross expenditure on provision of services.

Information Produced by the Entity (IPE): We identified an increased risk around the completeness, accuracy, and appropriateness of information produced by the entity due to the inability of the audit team to verify original documents or re-run reports on-site from the Authority's systems. We undertook the following to address this risk:

- Used the screen sharing function of Microsoft Teams to evidence re-running of reports used to generate the IPE we audited; and
- Agree IPE to scanned documents or other system screenshots.



Executive Summary

Scope update (continued)

The changes to audit risks, audit approach and auditor reporting requirements changed the level of work we needed to perform which will impact our audit fee. We will confirm the impact at the conclusion of the audit once all procedures are completed.

Status of the audit

We are in the process of completing our audit of Hart District Council's financial statements for the year ended 31 March 2020 and have performed the procedures outlined in our audit planning report.

We have set out in Appendix C the remaining areas of audit to be completed at the time of writing this report. Subject to satisfactory completion of those matters, we expect to issue an unqualified opinion on the Authority's financial statements in the form which appears at Section 3. However until work is complete, further amendments may arise.

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

Audit differences

If we identified any audit differences, we either ask for them to be corrected or a rationale given as to why they are not corrected, which is approved by the Audit Committee and included in the Letter of Representation. If applicable, we set out the aggregated impact of unadjusted audit differences and whether we agree with management's assessment that the impact is not material.

Unadjusted audit differences:

- Accruals overstated by an estimated £165k. We found two examples, totalling £2,748, in our sample of 18, where the invoice and services provided related to FY20/21. This error was estimated to be £165k when extrapolated across the total population.

Adjusted audit differences:

- We have identified one audit difference in the draft financial statements which management **has chosen** to adjust. The pension fund auditor has raised that, based on the Pension Fund accounts and actual rate of return, the Council's share of the pension fund assets is estimated to be understated by £727k.
- There were some minor disclosures which have been adjusted by management.

We have yet to complete our work so there may be other adjustments arising.

Executive Summary

Areas of audit focus

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

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

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

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

Control observations

We have adopted a fully substantive approach, so we have not tested the operation of controls.

Value for money

We have considered your arrangements to take informed decisions; deploy resources in a sustainable manner; and work with partners and other third parties. In our Audit Planning Report we identified two significant risks around our Value for Money Conclusion on the impact of the exit from the 5 C's contract and the Commercialisation and purchase of investment properties. We are satisfied with the arrangements in place in these areas.

Other reporting issues

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

We are required to perform procedures required by the National Audit Office (NAO) on the Whole of Government Accounts submission. The NOA are yet to issue those instructions, but as the authority is expected to be below the NAO threshold, this usually consists simply of a return to the NAO.

We have no other matters to report.

Independence

Please refer to Section 10 for our update on Independence.



02 Areas of Audit Focus



Areas of Audit Focus

Significant risk

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 and Ireland) 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 not identified a heightened risk of management override overall, but we have identified a specific area where management override might occur, in terms of the potential incorrect capitalisation of revenue spending. Our specific response to this risk is set out in the next slide.

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What judgements are we focused on?

We have considered the risk of management override and the areas of the financial statements that may be most susceptible to this risk.

What did we do?

- ▶ Identified fraud risks during the planning stages.
- ▶ Asked management about risks of fraud and the controls put in place to address those risks.
- ▶ Understood the oversight given by those charged with governance of management's processes over fraud.
- ▶ Considered the effectiveness of management's controls designed to address the risk of fraud.
- ▶ Determined an appropriate strategy to address those identified risks of fraud.
- ▶ Performed mandatory procedures regardless of specifically identified fraud risks, including testing of journal entries and other adjustments in the preparation of the financial statements.

What are our conclusions?

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

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

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

Our testing of journal entries did not identify any errors nor highlight any fraud issues.



Areas of Audit Focus

Significant risk

Incorrect capitalisation of revenue expenditure

What is the risk?

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.

In considering how the risk of management override may present itself, we conclude that this is primarily through management taking action to override controls and manipulate in year financial transactions that impact the medium to longer term projected financial position.

A key way of improving the revenue position is through the inappropriate capitalisation of revenue expenditure. The Council has a significant fixed asset base and a material capital programme of £9.283 million in 19/20.

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What judgements are we focused on?

How management decides on appropriate capitalisation of revenue expenditure.

How the capital programme complies with proper capital strategy principles.

What did we do?

- Sample testing additions to property, plant and equipment to ensure that they have been correctly classified as capital and included at the correct value in order to identify any revenue items that have been inappropriately capitalised.

What are our conclusions?

We have not identified any material weaknesses in controls or evidence of material management override in relation to the incorrect capitalisation of revenue expenditure.

We have not identified any instances of inappropriate judgements being applied in expenditure that has been capitalised.

Areas of Audit Focus

Other areas of audit focus

In our audit planning report we identified other areas of the audit, not classified as significant risks, but still important when considering the risks of material misstatement to the financial statements and disclosures.

What is the risk/area of focus?

Valuation of Investment Property (IP) & Property, Plant and Equipment (PPE)

The value of Investment Property, at £6.350 million, and Property, Plant and Equipment (PPE), at £42.511 million, at the end of March 2020, represent significant balances in the Council's accounts.

There is a risk that the values in the Council's financial statements may be materially misstated as PPE is subject to valuation changes, impairment reviews and depreciation charges.

Management is required to make material judgements on inputs and apply estimation techniques to calculate the year-end balances in the balance sheet. These judgments cover both assets that are revalued within the year and, the continuing material accuracy of those valued in prior periods. The impact of Covid-19 has meant that valuers are providing their valuations as at 31 March 2020 with material uncertainty clauses.

What did we do?

We:

- ▶ considered the annual cycle of valuations to ensure that assets have been valued within a 5 year rolling programme for PPE.
- ▶ reviewed PPE assets not subject to valuation in 2019/20 to confirm that the remaining asset base is not materially misstated;
- ▶ considered the work performed by the Council's valuers, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work;
- ▶ sample tested key asset information used by the valuers in performing their valuation (e.g. floor plans to support valuations based on price per square metre) and challenge the key assumptions used by the valuers; and
- ▶ confirmed that accounting entries have been correctly processed in the financial statements.

At the time of writing this work is in progress and we have yet to complete our final review.

Areas of Audit Focus

Other areas of audit focus

In our audit planning report we identified other areas of the audit, not classified as significant risks, but still important when considering the risks of material misstatement to the financial statements and disclosures.

What is the risk/area of focus?

What did we do?

Pension Liability Valuation

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

The Council's pension fund deficit is a material estimated balance and the Code requires that this net liability is disclosed on the Council's balance sheet. At 31 March 2020 this came to £28.610 million.

The information disclosed is based on the IAS19 report issued to the Council by the actuary to the County Council.

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

We:

- ▶ Liaised with the auditors of Hampshire Pension Fund to obtain assurances over the information supplied to the actuary. The pension fund auditor has raised that, based on the Pension Fund accounts and actual rate of return, the Council's share of the pension fund assets is estimated to be understated by £727k.
- ▶ Assessed the work of the Pension Fund actuary 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. There are no issues regarding the actuary's assumptions.



Areas of Audit Focus

Other areas of audit focus

In our audit planning report we identified other areas of the audit, not classified as significant risks, but still important when considering the risks of material misstatement to the financial statements and disclosures.

What is the risk/area of focus?

What did we do?

Going Concern

The Council prepares its accounts on the assumption that it will continue as a going concern. The current and future uncertainty over government funding and loss of income as a result of Covid-19 increases the need for the Council to revisit its financial planning and undertake a detailed assessment to support its going concern assertion. We discussed with management the need for additional disclosures in the 2019/20 statements on going concern and in particular, and identified material uncertainties

From an audit perspective, the auditor's report going concern concept is a 12-month outlook from the audit opinion date, rather than the balance sheet date. So, for the 2019/20 statements, for example, we will need to see evidence of an assessment up to and including November 2021. This will need information relevant to the 2021/22 financial year.

We focus on management's assessment of the going concern on both the level of reserves available to the Council, and the availability of cash balances, in order to ensure they are both sufficient to enable the Council to continue its operations.

- ▶ We reviewed the Audit Committee's assessment of the appropriateness of the going concern assumption;
- ▶ We reviewed and challenged the level and form of disclosure of this assessment made in the financial statements, given the Covid-19 pandemic; and
- ▶ Reviewed the Council's cash flow forecasts and financial plans for the foreseeable future to ensure that these are sufficiently robust and supported by adequate evidence, and that the cash flow forecasts demonstrate that the Council has sufficient liquidity to continue its operations.
- ▶ We have yet to complete our review of the proposed going concern disclosures for inclusion in the financial statements, which needs to take into account information through to the date of signing the auditor report;
- ▶ We may draw the attention of the users to this disclosure, if we consider there are issues significantly important to their understanding of the going concern assumption. This would be through an emphasis of matter paragraph in our audit report. Our opinion is not qualified in respect of this matter.



03 Audit Report



Audit Report

Draft audit report

Our opinion on the financial statements

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF HART DISTRICT COUNCIL

Opinion

We have audited the financial statements of Hart District Council for the year ended 31 March 2020 under the Local Audit and Accountability Act 2014.

The financial statements comprise the:

- Movement in Reserves Statement,
- Comprehensive Income and Expenditure Statement,
- Balance Sheet,
- Cash Flow Statement,
- Collection Fund, and
- The related notes 1 to 7 of the Authority's Financial Statements, notes 8 of the Collection Fund, and note 9.

The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.

In our opinion the financial statements:

- give a true and fair view of the financial position of Hart District Council and Group as at 31 March 2020 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.

Basis for opinion

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

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- The Head of Corporate Resources (S151 Officer)s' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Head of Corporate Resources (S151 Officer) has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Authority's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The other information comprises the information included in the statement of accounts, other than the financial statements and our auditor's report thereon. The Head of Corporate Resources (S151 Officer) is responsible for the other information.

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



Audit Report

Our opinion on the financial statements

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

We have nothing to report in this regard.

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

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

In our opinion, based on the work undertaken in the course of the audit, having regard to the guidance issued by the Comptroller and Auditor General (C&AG) in April 2020, we are satisfied that, in all significant respects, Hart District Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2020.

Matters on which we report by exception

We report to you if:

- in our opinion the annual governance statement is misleading or inconsistent with other information forthcoming from the audit or our knowledge of the Council;
- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014;
- we make written recommendations to the audited body under Section 24 of the Local Audit and Accountability Act 2014;

- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014.

We have nothing to report in these respects

Responsibility of the Head of Corporate Resources (S151 Officer)

As explained more fully in the Statement of Responsibilities set out on page 16, the Head of Corporate Resources (S151 Officer) is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19, and for being satisfied that they give a true and fair view.

In preparing the financial statements, the Head of Corporate Resources (S151 Officer) is responsible for assessing the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Authority either intends to cease operations, or have no realistic alternative but to do so.

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

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.



Audit Report

Our opinion on the financial statements

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

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

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General (C&AG) in April 2020, as to whether Hart District Council had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether Hart District Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2020.

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

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

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

Certificate

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

Use of our report

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

*Kevin Suter (Key Audit Partner)
Ernst & Young LLP (Local Auditor)
Southampton
Xx November 2020*



04 Audit Differences





Audit Differences

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

Summary of audit differences

If we identified any audit differences, we either ask for them to be corrected or a rationale given as to why they are not corrected, which is approved by the Audit Committee and included in the Letter of Representation. If applicable, we set out the aggregated impact of unadjusted audit differences and whether we agree with management’s assessment that the impact is not material.

Unadjusted audit differences:

- Accruals overstated by an estimated £165k. We found two examples, totalling £2,748, in our sample of 18, where the invoice and services provided related to FY20/21. This error was estimated to be £165k when extrapolated across the total population.

Adjusted audit differences:

- We have identified one audit difference in the draft financial statements which management **has chosen** to adjust. The pension fund auditor has raised that, based on the Pension Fund accounts and actual rate of return, the Council’s share of the pension fund assets is estimated to be understated by £727k.

Disclosures:

- *Note 3.10.1 - Remuneration*; There are two errors in this note where exit packages have been disclosed in the wrong bandings
- *Note 5.12.6 - Collection Fund Adjustment Account*: The carried forward figures initially showed a surplus instead of a deficit
- *Restatements*: A number of notes had restated comparative figures for 18/19, however these were, all but one, presentational issues which did not need defining as restatements.
- There were also some other minor disclosures which have been adjusted by management.

We have yet to complete our work so there may be other adjustments arising.



05

Value for Money



Value for Money

Background

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

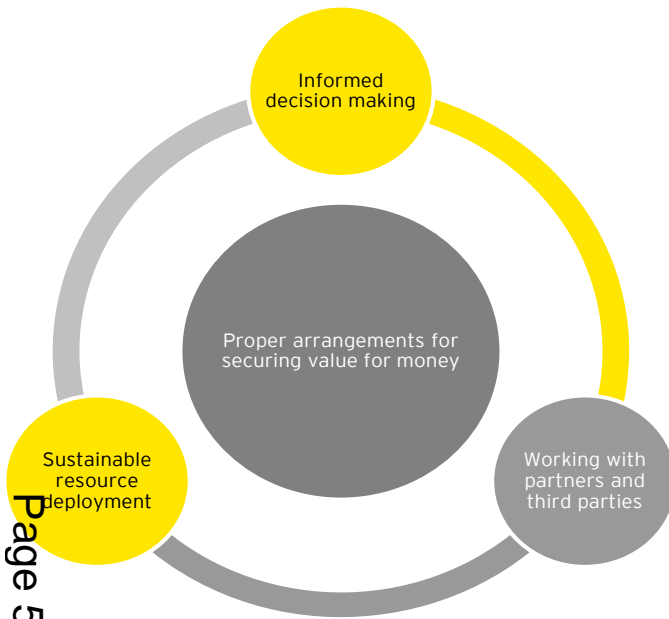
For 2019/20 this is based on the overall evaluation criterion:

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

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

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

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



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Impact of covid-19 on our Value for Money assessment

On 16 April 2020 the National Audit Office published an update to auditor guidance in relation to the 2019/20 Value for Money assessment in the light of covid-19. This clarified that in undertaking the 2019/20 Value for Money assessment auditors should consider Local Authorities' response to Covid-19 only as far as it relates to the 2019-20 financial year; only where clear evidence comes to the auditor's attention of a significant failure in arrangements as a result of Covid-19 during the financial year, would it be appropriate to recognise a significant risk in relation to the 2019-20 VFM arrangements conclusion.

Overall conclusions

Our value for money risk assessment, at the planning stage of the audit, considered both the potential financial impact of issues facing the Council, and also the likelihood that the issues will be of interest to local taxpayers, the Government and other stakeholders. At the time of planning, we identified two significant risks relevant to our value for money conclusion, namely:

- the impact of exit from the 5 C's Contract; and
- commercialisation and the purchase of investment properties.

Our findings and conclusions are set out on the following pages.



Value for Money Risks

What is the significant value for money risk?

What arrangements does the risk affect?

What will we do?

The impact of the exit from the 5C's contract

In October 2017, Hart District Council (the Council) entered into two contracts for the provision of corporate services, in partnership with Mendip District Council, South Oxfordshire District Council, Vale of the White Horse District Council and Havant Borough Council (known as the "Five Councils"). The services were originally split into two lots; data-based services (Lot 1) and property based services (Lot 2).

These contracts were designed to generate savings of over £50 million for the Five Councils across their lifetime of nine years but the Councils have had to renegotiate Lot 1, in October 2018, and pull out of Lot 2, in January 2018, due to the issues with the way the contracts were constructed and the implications for the practical implementation of them.

In October 2018, the Five Councils drafted the new Inter-Authority Agreement (IAA) which outlined the revised governance and cost sharing arrangements between them. However, this has not worked effectively as there are still performance issues with the contract, as discussed at the 28 October 2019 5 Councils Corporate Services Joint Committee.

The 5 Councils are now exiting the contract for some services as at 31 March 2020. Given the short timescale for termination of the contract there is a risk that both the services and financial performance of the Council would be negatively impacted if new arrangements, from 1 April 2020, are difficult to implement or do not deliver the intended benefits in a sufficiently timely manner.

Deploy resources in a sustainable manner

Informed Decision making

We will:

- review the arrangements in place to monitor the exit of the 5 C's contract for the relevant services.
- review the arrangements to plan and implement the revised delivery arrangements, including risk management processes.

Findings

In line with the governance arrangements in the IAA, service performance and contract change discussions continued to be reported to the, regular 6 weekly meetings of the 5 Council's Strategic Management Board (SMB), Operational Management Board (OMB) and the Joint Tactical Board (JTB) during 2019/20. In the latter part of 2019/20, the 5 C's Strategic Partnership Project Team began to facilitate the insourcing of services. Business cases for alternative solutions were discussed for each service provided by Capita and it was decided that the HR, Payroll and Accountancy services would be re-provisioned with effect from 1 April 2020. Exchequer and IT services still remain with Capita, but at the time of writing this report, these are currently being reviewed to decide on the best options going forward for 1 April 2021.

On 1 April 2020, the HR, Payroll and Accountancy all transitioned from Capita with no disruption to service provision.

- The HR service is being adequately managed in-house. Some of the technology has been lost (ResourceLink) but a new solution will be developed in time.



Value for Money Risks

The impact of the exit from the 5C's contract - Findings

- For payroll, now in-house, the pay runs for April and May were satisfactory, and whilst a number of discrepancies did occur these were identified and addressed without significant impact on employees.
- For accountancy, there was an agreed finance structure put in place as Mendip District Council TUPE'D the Capita staff back in-house and agreed a joint delivery of financial services with Hart under a new contract. Whilst experiencing some issues, the finance team have been focussed on the financial year-end, producing two sets of financial statements for both Mendip and Hart District Councils to the 31 August deadline, as well as supporting the business grant response to Covid-19.

The cost of exiting the Capita contract for HR, Payroll and Accountancy was a one-off payment for Hart of some £326k excluding VAT. Whilst this £326k is an additional expense for 2019/20, Hart had put monies aside in an earmarked reserve to cover these costs.

Ongoing negotiations with Capita is a key strategic risk on the Council's Corporate Risk Register for 2019/20 and 2020/21. Regular reporting on the actions to mitigate the risk around the transfer of services has been received by the Council's Overview & Scrutiny Committee who monitor this Risk Register on a quarterly basis. Whilst the Council reports on refining relevant business cases, in line with negotiations, it also reported that there is no indication that Capita intend to cease delivering any services that the Councils are not prepared to nor will withdraw from.

In terms of whether the arrangements to exit the contract were adequate, we conclude that there were clear arrangements to manager the transition to ensure the continuity of services for HR, Payroll and Accountancy services. Whilst negotiations now turns to the remaining services, with particular focus on Exchequer Services and IT, we suggest that management carry out individual services reviews of the HR, Payroll and Accountancy services to ensure that the new services delivered the intended benefits and continue to improve service performance.



Value for Money Risks

What is the significant value for money risk?	What arrangements does the risk affect?	What will we do?
Commercialisation and the purchase of investment properties		
<p>The Council has plans to develop its commercial and investment opportunities to increase its annual income. The Council's Commercialisation Acquisition Programme, as described in the 2020/21 Budget Paper presented to Cabinet on 6 February 2020, shows the following Commercialisation investment amounts to be funded by borrowing:</p> <ul style="list-style-type: none"> 2020/21: £16.3 million 2021/22: £10 million; and 2022/23: £10 million. <p>The Prudential Code, issued by CIPFA has always contained a statement that local authorities should not borrow more than, or in advance of their needs purely in order to profit from the investment of the extra sums borrowed (paragraph 46 of the Statutory Guidance on Local Government Investments). However, para 47 also states that where a local authority has chosen to disregard the Prudential Code and the Guidance, additional explanations and disclosures will be required, including risk management.</p> <p>The Guidance also requires investments to have regard to Security, Liquidity and Yield in that order.</p> <p>Additionally, the Statutory Guidance on Minimum Revenue Provision (MRP) applying from 1 April 2019 includes the requirement to establish an MRP policies, and paragraph 45 states that the duty to make MRP extends to investment properties where their acquisition has been funded by an increase in borrowing or credit arrangements. The Guidance's commentary sets out this is to ensure Council's provide for debt taken on to finance the asset over the period of that debt, with a maximum period of 50 years, consistent with the maximum period of PWLB borrowing. The Council's current policy states only that an annual review will be made to determine the most prudent method.</p>	<p>Deploy resources in a sustainable manner</p>	<p>We will review:</p> <ul style="list-style-type: none"> The underlying rationale for the Council's proposed investments and clarity on how this sits with the Council's strategy and objectives; Legal powers and other advice obtained e.g. tax, investment decisions; Compliance with sections 46 and 47 of Statutory Guidance on Local Authority Investments and the Prudential Code; The Council's MRP policy; Clarity of governance arrangements for the Council's decision making with regard to their investment property purchases; Recognition and reporting of risks in the corporate/strategic risk register <p>We will also consider the extent to which the Council has demonstrated the key Prudential Code considerations:</p> <ul style="list-style-type: none"> Existence of capital expenditure plans and a clear strategy that has regard to have regard to; service objectives, stewardship of assets, value for money, prudence and sustainability, affordability and practicality Demonstrating value for money in borrowing decisions Security of borrowed funds Extent of borrowing for investments and borrowing overall The nature of the investment Risks involved, including falling capital values, borrowing costs, illiquidity of assets.



Value for Money Risks

Commercialisation and the purchase of investment properties - findings

The Council's Commercialisation Strategy, dated September 2018, is currently being refreshed for November 2020. The Strategy was last considered by the July 2020 Overview and Scrutiny Committee which was reviewing the outcome of the purchase of the Council's first investment property in February 2020. Internal cash funds were used to purchase a property for £6 million and no borrowing has taken place.

Over time the Council may borrow some £50 million to invest in commercial assets to generate revenue of some £2 million a year by 2024/25 to help fund the delivery of Council services and help reduce any funding gaps. The Council's approach to MRP for its commercial investment activities is consistent with guidance, in that it sets aside 2% of the value of its investments each year to better reflect the return after borrowing costs.

In terms of governance arrangements, the Council has set up a streamlined decision making process so that it can react quickly to market events. A panel consisting of one of the Chief Executives, the Leader, the Chair of the Overview and Scrutiny Committee and the Head of Corporate Resources & Section 151 Officer considers each individual business case for property acquisition which has been prepared by the Council's Commercial and Asset Manager, a qualified surveyor. External legal and property advice is used and the financial due diligence process is well documented.

Whilst comprehensive procedures have been put in place, the Council should continue to improve risk management regarding individual commercial properties and diversify its portfolio in line with external guidance. It appears that risks associated with property investments have yet to be considered on the Council's Corporate Risk Register. We suggest that the Council's risk management process should be improved with risks identified and the actions to mitigate risks documented for individual commercial investments on a Commercial Property Risk Register, which should be actively maintained and reviewed on a quarterly basis by the Overview and Scrutiny Committee.

The Council should also consider formalising a process for analysing decisions to retain or sell properties, to manage the risk of any loss in market value of the investment. It should establish key criteria against which to make this decision, and monitor these on a consistent basis. This could also be linked into the annual capital strategy.

While no borrowing has currently taken place, the Council needs to remain aware of any further guidance regarding rules on borrowing for investment purposes, and ensure it takes ongoing legal advice to support its powers to do so.



06 Other reporting issues

Other reporting issues

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

We must give an opinion on the consistency of the financial and non-financial information in the Statement of Accounts 2019/20 with the audited financial statements.

- The financial information in the Statement of Accounts 2019/20 was consistent with the audited financial statements.

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

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

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Whole of Government Accounts

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

We have yet to complete the return for the NAO. However, as the Council falls below the NAO threshold for audit, no further work is required in this area.

Other powers and duties

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

We also have a duty to make written recommendations to the Authority, copied to the Secretary of State, and take action in accordance with our responsibilities under the Local Audit and Accountability Act 2014.

To date we have not identified any issues.

Other reporting issues

Other matters

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

- Significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures;
- Any significant difficulties encountered during the audit;
- Any significant matters arising from the audit that were discussed with management;
- Written representations we have requested;
- Any other matters significant to overseeing the financial reporting process;
- Related parties;
- External confirmations;
- Consideration of laws and regulations; and
- Group audits;

We have nothing to report on the above matters.



07

Assessment of Control Environment



Assessment of Control Environment

Financial controls

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

As part of our audit of the Council's financial statements, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. Although our audit was not designed to express an opinion on the effectiveness of internal control we are required to communicate to you significant deficiencies in internal control.

We have not identified any significant deficiencies in the design or operation of an internal control that might result in a material misstatement in your financial statements of which you are not aware. As we have adopted a fully substantive approach, we have not tested the operation of controls.

We considered whether circumstances arising from COVID-19 resulted in a change to the overall control environment of effectiveness of internal controls, for example due to significant staff absence or limitations as a result of working remotely. We identified no issues which we wish to bring to your attention.

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08 Data Analytics



Use of Data Analytics in the Audit

► Data analytics

Analytics Driven Audit

Data analytics

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

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

In 2019/20, our use of these analysers in the authority's audit included testing journal entries, to identify and focus our testing on those entries we deem to have the highest inherent risk to the audit.

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

Journal Entry Analysis

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



Independence

Confirmation

We confirm that there are no changes in our assessment of independence since our confirmation in our audit planning report dated 18 May 2020.

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

We consider that our independence in this context is a matter which you should review, as well as us. It is important that you and your Audit Committee consider the facts known to you and come to a view. If you would like to discuss any matters concerning our independence, we will be pleased to do this at the meeting of the Committee on 28 October 2020.

Independence

Fee analysis

As part of our reporting on our independence, we set out below a summary of the fees paid for the year ended 31 March 2020. We confirm that we have not undertaken non-audit work outside the NAO Code requirements.

Our fees below include a rebased audit fee to account for the increased audit and quality requirements as well as increased regulatory challenge on the depth and quality of assurance provided by audit suppliers. There is now greater pressure on firms to deliver higher quality audits by requiring auditors to demonstrate greater professional scepticism when carrying out their work. This has resulted in auditors needing to exercise greater challenge to the areas where management makes judgements or relies upon advisers, for example, in relation to estimates and related assumptions within the accounts.

	Final Fee 2019/20	Planned Fee 2019/20	Scale Fee 2019/20	Final Fee 2018/19
	£	£	£	£
Planned Audit Fee - Code work	41,468	41,468	41,468	41,468
Rebased audit fee - Code work	24,500	24,500	0	0
Additional fees	Note 1	Note 1	0	21,576
Total Code fee	Tbc	tbc	41,468	63,044
Non-audit services - Housing Benefit Subsidy Claim Certification	11,738 Note 2	11,738 Note 2	n/a	11,738
Total fees	tbc	tbc	41,468	74,782

Note 1: There will be additional fees for 19/20 due to additional work required because of the following:

- Using EY Real Estate experts to assess the impact of Covid-19 on land and building valuations and the material uncertainty clause in the Authority's valuation report;
- Additional procedures to consider the Authority's going concern assessment;
- Consultation requirements concerning the Covid-19 impact on the Auditor's report.
- Additional work on the two significant VFM risk of (1) reviewing the impact of the exit from the 5 C's contract and (2) commercialisation and the purchase of investment properties
- Extra time required to complete the audit which took longer than planned due to the availability of supporting evidence and working papers.

We will quantify and discuss additional fees at the conclusion of the audit with the s151 officer. All additional audit fees are also subject to approval by the PSAA.

Note 2: The fee for housing benefit work is the base fee and does not include any extended testing; which may arise if errors are identified. From 2018-19 onwards the work falls outside the PSAA regime and is subject to a separate fee proposal and engagement terms. The work is due to take place to meet the DWP's timetable of 31 January 2021.



10 Appendices

Audit approach update

We summarise below our approach to the audit of the balance sheet and any changes to this approach from the prior year audit.

Our audit procedures are designed to be responsive to our assessed risk of material misstatement at the relevant assertion level. Assertions relevant to the balance sheet include:

- ▶ Existence: An asset, liability and equity interest exists at a given date
- ▶ Rights and Obligations: An asset, liability and equity interest pertains to the entity at a given date
- ▶ Completeness: There are no unrecorded assets, liabilities, and equity interests, transactions or events, or undisclosed items
- ▶ Valuation: An asset, liability and equity interest is recorded at an appropriate amount and any resulting valuation or allocation adjustments are appropriately recorded
- ▶ Presentation and Disclosure: Assets, liabilities and equity interests are appropriately aggregated or disaggregated, and classified, described and disclosed in accordance with the applicable financial reporting framework. Disclosures are relevant and understandable in the context of the applicable financial reporting framework




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Balance sheet category	Audit Approach in current year	Audit Approach in prior year	Explanation for change
Trade receivables	Substantively tested all assertions	Substantively tested all assertions	No change
Trade payables	Substantively tested all assertions	Substantively tested all assertions	No change
Investments	Substantively tested all assertions	Substantively tested all assertions	No change
Tangible fixed assets	Substantively tested all assertions	Substantively tested all assertions	No change
Cash	Substantively tested all assertions	Substantively tested all assertions	No change
Borrowing	Substantively tested all assertions	Substantively tested all assertions	No change
Capital grants receipts in advance	Substantively tested all assertions	Substantively tested all assertions	No change
Pensions liability	Substantively tested all assertions	Substantively tested all assertions	No change

Appendix B

Required communications with the Audit Committee

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

			 Our Reporting to you
Required communications	 What is reported?	 When and where	
Terms of engagement	Confirmation by the Audit 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.	Audit planning report	
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

		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 	No conditions or events were identified, either individually or together to raise any doubt about the Council's ability to continue for the 12 months from the date of our report
Misstatements	<ul style="list-style-type: none"> ▶ Uncorrected misstatements and their effect on our audit opinion ▶ The effect of uncorrected misstatements related to prior periods ▶ A request that any uncorrected misstatement be corrected ▶ Material misstatements corrected by management 	Audit results report
Subsequent events	<ul style="list-style-type: none"> ▶ Asking the Audit Committee where appropriate about whether any subsequent events have occurred that might affect the financial statements. 	
Fraud	<ul style="list-style-type: none"> ▶ Asking the Audit Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the Authority ▶ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist ▶ Unless all of those charged with governance are involved in managing the Authority, any identified or suspected fraud involving: <ol style="list-style-type: none"> a. Management; b. Employees who have significant roles in internal control; or c. Others where the fraud results in a material misstatement in the financial statements. ▶ The nature, timing and extent of audit procedures necessary to complete the audit when fraud involving management is suspected ▶ Any other matters related to fraud, relevant to Audit Committee responsibility. 	Audit results report

Appendix B




		Our Reporting to you
Required communications	What is reported?	When and where
Related parties	<p>Significant matters arising during the audit in connection with the Authority's related parties including, when applicable:</p> <ul style="list-style-type: none"> ▶ Non-disclosure by management ▶ Inappropriate authorisation and approval of transactions ▶ Disagreement over disclosures ▶ Non-compliance with laws and regulations ▶ Difficulty in identifying the party that ultimately controls the Authority 	Audit results report
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>Communications whenever significant judgments are made about threats to objectivity and independence and the appropriateness of safeguards put in place.</p>	<p>Audit planning report</p> <p>Audit results report</p>

Appendix B

		Our Reporting to you
Required communications	What is reported?	When and where
External confirmations	<ul style="list-style-type: none"> ▶ Management's refusal for us to request confirmations ▶ Inability to obtain relevant and reliable audit evidence from other procedures. 	All confirmations requested have been received
Consideration of laws and regulations	<ul style="list-style-type: none"> ▶ Subject to compliance with applicable regulations, matters involving identified or suspected non-compliance with laws and regulations, other than those which are clearly inconsequential and the implications thereof. Instances of suspected non-compliance may also include those that are brought to our attention that are expected to occur imminently or for which there is reason to believe that they may occur ▶ Enquiry of the Audit Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the Audit Committee may be aware of 	We have asked management and those charged with governance. We have not identified any material instances or non-compliance with laws and regulations
Significant deficiencies in internal controls identified during the audit	<ul style="list-style-type: none"> ▶ Significant deficiencies in internal controls identified during the audit. 	Audit results report

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Appendix B

		Our Reporting to you
Required communications	 What is reported?	  When and where
Group Audits	<ul style="list-style-type: none"> ▶ An overview of the type of work to be performed on the financial information of the components ▶ An overview of the nature of the group audit team's planned involvement in the work to be performed by the component auditors on the financial information of significant components ▶ Instances where the group audit team's evaluation of the work of a component auditor gave rise to a concern about the quality of that auditor's work ▶ Any limitations on the group audit, for example, where the group engagement team's access to information may have been restricted ▶ Fraud or suspected fraud involving group management, component management, employees who have significant roles in group-wide controls or others where the fraud resulted in a material misstatement of the group financial statements. 	Audit results report
Written representations we request from management and/or those charged with governance	<ul style="list-style-type: none"> ▶ Written representations we request from management and/or those charged with governance 	Audit results report
Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	<ul style="list-style-type: none"> ▶ Material inconsistencies or misstatements of fact identified in other information which management has refused to revise 	Audit results report
Auditors report	<ul style="list-style-type: none"> ▶ Any circumstances identified that affect the form and content of our auditor's report 	Audit results report
Fee Reporting	<ul style="list-style-type: none"> ▶ Breakdown of fee information when the audit planning report is agreed ▶ Breakdown of fee information at the completion of the audit ▶ Any non-audit work 	Audit Planning Report Audit Results Report
Certification work	<ul style="list-style-type: none"> ▶ Summary of certification work 	Certification Report

Appendix C

Outstanding matters

The following items relating to the completion of our audit procedures are outstanding at the date of the release of this report:

Item	Actions to resolve	Responsibility
Payroll walkthrough	Completion of walkthrough	EY and management
Review procedures	Final Engagement Leader and Manager review of the final position on concluded work, audit adjustments and reporting	EY
Statement of accounts	Review of the final version of the accounts	EY
Management representation letter	Receipt of signed management representation letter	Management and Audit Committee
Subsequent events review	Completion of subsequent events procedures to the date of signing the audit report	EY and management
Covid-19 Going concern stress testing	Query with management	EY and management
Valuation of land & buildings	Completion of residual queries and valuation estimate by EY experts, and comparison with management's valuation.	EY and management

Management representation letter

Management Rep Letter

Ernst & Young LLP
Grosvenor House,
Grosvenor Square,
Southampton.
SO15 2BE

Dear Kevin

This letter of representations is provided in connection with your audit of the financial statements of Hart District Council("the Council") for the year ended 31st March 2020. We recognise that obtaining representations from us concerning the information contained in this letter is a significant procedure in enabling you to form an opinion as to whether the financial statements give a true and fair view of the financial position of Hart District Council as of 31st March 2020 and of its income and expenditure for the year then ended in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.

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

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

A. Financial Statements and Financial Records

We have fulfilled our responsibilities, under the relevant statutory authorities, for the preparation of the financial statements in accordance with the Accounts and Audit Regulations 2015 and CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20

We acknowledge, as members of management of Council, our responsibility for the fair presentation of the financial statements. We believe the financial statements referred to above give a true and fair view of the financial position, financial performance (or results of operations) and cash flows of the Group and Council in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 and are free of material misstatements, including omissions. We have approved the financial statements.

The significant accounting policies adopted in the preparation of the financial statements are appropriately described in the financial statements.

As members of management of the Council, we believe that the Council has a system of internal controls adequate to enable the preparation of accurate financial statements in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20, that are free from material misstatement, whether due to fraud or error.

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

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

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

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

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

Management representation letter

Management Rep Letter

We have no knowledge of any identified or suspected non-compliance with laws or regulations, including fraud that may have affected the Council (regardless of the source or form and including without limitation, any allegations by “whistleblowers”), including non-compliance matters:

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

C. Information Provided and Completeness of Information and Transactions

We have provided you with:

Access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;

Additional information that you have requested from us for the purpose of the audit; and

Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.

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

We have made available to you all minutes of the meetings of the Council and its relevant committees (or summaries of actions of recent meetings for which minutes have not yet been prepared) held through the year to the most recent meeting on the following date: *tbc*.

We confirm the completeness of information provided regarding the identification of related parties. We have disclosed to you the identity of the Council’s related parties and all related party relationships and transactions of which we are aware, including sales, purchases, loans, transfers of assets, liabilities and services, leasing arrangements, guarantees, non-monetary transactions and transactions for no consideration for the period ended, as well as related balances due to or from such parties at the period end. These transactions have been appropriately accounted for and disclosed in the financial statements.

We believe that the significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable.

We have disclosed to you, and the Council has complied with, all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance, including all covenants, conditions or other requirements of all outstanding debt.

From 17 December 2019 through the date of this letter we have disclosed to you any unauthorized access to our information technology systems that either occurred or to the best of our knowledge is reasonably likely to have occurred based on our investigation, including of reports submitted to us by third parties (including regulatory agencies, law enforcement agencies and security consultants), to the extent that such unauthorized access to our information technology systems is reasonably likely to have a material impact to the financial statements, in each case or in the aggregate.

D. Liabilities and Contingencies

All liabilities and contingencies, including those associated with guarantees, whether written or oral, have been disclosed to you and are appropriately reflected in the financial statements.

Management representation letter

Management Rep Letter

We have informed you of all outstanding and possible litigation and claims, whether or not they have been discussed with legal counsel.

We have recorded and/or disclosed, as appropriate, all liabilities related litigation and claims, both actual and contingent, and have disclosed in the financial statements all guarantees that we have given to third parties.

E. Subsequent Events

Other than described in the financial statements, there have been no events subsequent to period end which require adjustment of or disclosure in the financial statements or notes thereto.

F. Other information

We acknowledge our responsibility for the preparation of the other information. The other information comprises the information included in the statement of accounts, other than the financial statements and our auditor's report thereon.

We confirm that the content contained within the other information is consistent with the financial statements.

G. Reserves

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

H. Contingent Liabilities

We are unaware of any violations or possible violations of laws or regulations the effects of which should be considered for disclosure in the financial statements or as the basis of recording a contingent loss (other than those disclosed or accrued in the financial statements).

We are unaware of any known or probable instances of non-compliance with the requirements of regulatory or governmental authorities, including their financial reporting requirements, and there have been no communications from regulatory agencies or government representatives

concerning investigations or allegations of non-compliance.

I. Use of the Work of a Specialist

We agree with the findings of the specialists that we engaged to evaluate the valuation of Property, Plant and Equipment, the IAS19 actuarial valuations of pension fund liabilities and have adequately considered the qualifications of the specialists in determining the amounts and disclosures included in the financial statements and the underlying accounting records. We did not give or cause any instructions to be given to the specialists with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an effect on the independence or objectivity of the specialists.

PPE Valuations and Pensions Liability Estimates

We believe that the measurement processes, including related assumptions and models, used to determine the accounting estimate(s) have been consistently applied and are appropriate in the context of the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.

We confirm that the significant assumptions used in making the estimates for PPE and Pensions Liability appropriately reflect our intent and ability to carry out specific courses of action on behalf of the entity.

We confirm that the disclosures made in the financial statements with respect to the accounting estimate(s) are complete and made in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.

Management representation letter

Management Rep Letter

We confirm that no adjustments are required to the accounting estimate(s) and disclosures in the financial statements due to subsequent events.

K. Retirement benefits

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

Yours faithfully,

Emma Foy - Head of Corporate Resources (S151 Officer)

Wendy Makepeace-Browne - Chair of the Audit Committee

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ED None

This material has been prepared for general informational purposes only and is not intended to be relied upon as accounting, tax, or other professional advice. Please refer to your advisors for specific advice.

AUDIT COMMITTEE

DATE OF MEETING: 27 OCTOBER 2020

TITLE OF REPORT: STATEMENT OF ACCOUNTS AND LETTER OF REPRESENTATION

Report of: Head of Corporate Services and S.151 Officer

Cabinet Member: Councillor James Radley, Finance and Corporate Services

1. PURPOSE OF REPORT

1.1 To report to Members the position of the EY LLP audit of the statements and any amendments arising from the audit.

2. OFFICER RECOMMENDATION

2.1 That delegated authority is given to the Chair of Audit Committee in consultation with the Head of Corporate Services for the final approval of the 2019/20 Statement of accounts and letter of representation.

3. BACKGROUND AND SUMMARY OF KEY ISSUES

3.1 The content of the Statement of Accounts is largely determined by statutory requirements and mandatory professional standards as set out within The Code of Practice on Local Authority Accounting (The Code). The Council's unaudited Statement of Accounts 2019/20 were signed off at the end of August by the Head of Corporate Services.

3.2 There is a statutory requirement to publish the approved and audited Statement of Accounts by 30 November 2020. Members should note that based on the work of the external audit so far, the 2019/20 accounts are expected to receive an unqualified opinion (i.e. the Council's financial records and statements are fairly and appropriately presented). There have been minor changes between the first version published and this version provided in Appendix 1. These changes are detailed in the Audit Results Report which is considered under another agenda item.

3.3 As the audit work has not been completed at the time of writing this report, it is recommended that delegated authority be given to the Chairman of Audit Committee and the Head of Corporate Services to approve the final 2019/20 Statement of Accounts and the letter of representation in the form that appears in the Annual results report.

4. FINANCIAL AND RESOURCE IMPLICATIONS

4.1 None

Contact: Emma Foy, emma.foy@hart.gov.uk

APPENDICES

Appendix 1 – Statement of Accounts version 2.0



STATEMENT OF ACCOUNTS

2019/2020

~~Draft 26 August 2020~~

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I NARRATIVE REPORT

I.01 INTRODUCTION

The Statement of Accounts summarises the financial performance for financial year 2019/20 and the overall financial position of the Council. This Narrative Report explains the most significant matters reported in the accounts and provides a simple summary of the Council's overall financial position.

The Statement of Accounts for 2019/20 has been prepared on an International Financial Reporting Standards (IFRS) basis. The framework within which these Accounts are prepared and published is regulated by the Chartered Institute of Public Finance and Accountancy (CIPFA).

Whilst these accounts are presented as simply as possible, the use of some technical terminology cannot be avoided. To aid a better understanding of the terminology used, a glossary of the terms is included at the end of the document. An explanation of the key financial statements including explanatory notes and other relevant supplementary information is also provided.

The key financial statements set out within this document include:

- **The Statement of Responsibilities** declares the respective responsibilities of the Council and the Head of Corporate Services and Section 151 Officer for the production of the Statement of Accounts.
- **The Expenditure and Funding Analysis** is a note to the financial statements, rather than a key statement. It shows all income and expenditure incurred by the Council throughout the year under statutory funding provisions and the adjustments that are required to these figures to produce the Comprehensive Income and Expenditure Statement under generally accepted accounting practices.
- **The Movement in Reserves Statement (MiRS)** – this Statement sets out the movement on the different reserves held by the Council which are analysed into usable and unusable reserves. It analyses the increase or decrease in net worth of the Council as a result of incurring expenses, gathering income and from movements in the fair value of the assets. It also analyses the movement between reserves in accordance with statutory provisions.
- **The Comprehensive Income and Expenditure Statement (CIES)** – this Statement brings together all the functions of the Council and summarises all the resources it has generated, consumed or set aside in providing services during the year. As such, it is intended to show the true financial position of the Council, before allowing for the concessions provided by statute to raise council tax according to different rules and the ability to divert particular expenditure to be met from capital resources.

I NARRATIVE REPORT

- **The Balance Sheet** – this records the Council’s year-end financial position. It shows the balances and reserves at the Council’s disposal, its long-term debt, net current assets or liabilities, and summarises information on the non-current assets held. Reserves are reported in two categories. The first category of reserves are usable reserves, i.e. those reserves that the Council can use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use (for example the Capital Receipts Reserve that may only be used to fund capital expenditure or repay debt). The second category of reserves is those that the Council cannot use to provide services. This category of reserves includes reserves that hold unrealised gains and losses (for example the Revaluation Reserve), where amounts would only become available to provide services if the assets are sold; and reserves that hold timing differences shown in the Movement in Reserves Statement line ‘Adjustments between accounting basis and funding basis under regulations’.
- **The Cash Flow Statement** – this summarises the inflows and outflows of cash arising from transactions with third parties for both capital and revenue.
- **Notes to the Financial Statements** – the notes provide more detail about the items contained in the key financial statements, the Council’s Accounting Policies and other information to aid the understanding of the financial statements.
- **The Collection Fund** – the Council is responsible for collecting council tax and local business rates. The proceeds of council tax are distributed to the Council, Hampshire County Council, Hampshire Police Authority, Hampshire Fire and Rescue Authority and local town/parish councils. Local business rates are distributed between the Council, the Government, Hampshire County Council and Hampshire Fire and Rescue Authority. The Fund shows the income due and application of the proceeds.

The Independent Auditor’s Report explains how the Council’s auditors, Ernst and Young LLP, plan their audit and the basis on which they provide an opinion on the Council’s Statement of Accounts. It also gives the auditor’s opinion on the Council’s arrangements for securing economy, efficiency and effectiveness in the use of resources in the year.

The Annual Governance Statement accompanies the Statement of Accounts and explains how the Council ensures 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. It is not covered by the auditor’s opinion but is considered by the auditor and reported on by exception in the auditor’s report if it is not compliant with proper practice.

I NARRATIVE REPORT

I.02 HART DISTRICT

Hart District is primarily rural, covers some 21,500 hectares (83 sq. miles) and is situated in north-east Hampshire, bordering both Surrey and Berkshire. It is a popular place to live, as it benefits from low unemployment, low crime rates and good schools. It has a healthy, active population with high participation in sports and leisure. There are approximately 95,000 residents and an estimated 36,000 homes in Hart. There is an increasing and ageing population, with the number of residents expected to rise to 105,800 by 2024 and increases expected in older age groups in particular. The main centres of population including Fleet, Yateley and Blackwater/Hawley are in the north and east of the district and just over 30% of the population live in the rural areas.

I.03 HART DISTRICT COUNCIL

Hart District Council (“the Council”) comprises 33 Councillors who represent their 11 wards. Each ward has 3 Councillors who represent it, although once elected Councillors will make decisions for the whole district, not just for the ward they were elected for. Elections are held in 3 out of every 4 years, with one seat in each ward contested at each election. The political make-up of the Council is currently: Conservative Party 11, Community Campaign Hart 10, Liberal Democrat Party 11, and one independent councillor.

The Council is a multifunctional organisation. Its policies are directed by the political leadership and implemented by the Officers of the Council. The Council has adopted the Leader and Cabinet model as its political management structure. The Leader of the Council has responsibility for the appointment of members of the Cabinet, the allocation of Portfolios and the delegation of Executive Functions. Cabinet Members are held to account by a system of scrutiny.

Supporting the work of Councillors is the organisational structure of the Council headed by the Joint Chief Executives, who are supported by four Heads of Service.

During the year the Council establishment was 103 full-time equivalent employees. Most services are outsourced or shared with other councils.

I NARRATIVE REPORT

I.04 CORPORATE STRATEGY

The Council has adopted a 5-year Corporate Plan for the period 2017-2022. It provides a focus for our activities and services and will inform decision making and allocation of resources across the Council. The Corporate Plan is centred around four priorities:

- A Thriving Local Economy
- A Clean, Green and Safe Environment
- Healthy Communities and People
- An Efficient and Effective Council

The Corporate Plan is underpinned by a Service Plan which will run for the lifetime of the plan and be updated annually. This shows in detail how the Council will make progress against the priorities in the Corporate Plan. Each year a review is undertaken to update the Service Plan and ensure it continues to highlight the significant projects that the Council is taking forward in pursuit of its four corporate priorities.

For the 2020/21 Service Plan, measures that the Council intends to deliver include delivering the climate change action plan, delivering new ways of working, supporting local communities to have more say in the future of their area, promoting the delivery of affordable housing and infrastructure in new developments, and initiatives to ensure the Council can achieve a greater level of financial self-sustainability.

In addition to the Service Plans, new obligations were placed upon the Council on the 22 March 2020 which include;

- distribution of discretionary business grants,
- support to the shielding and extremely vulnerable
- distribution of the hardship fund and emergency discharge from hospital
- providing support for businesses, including those moving to new takeaway services
- reopening of the high streets and ensuring safe spacing
- increased requirements to ensure no rough sleepers and increased communication requirements as part of the Council's statutory duties to "warn and inform"

I NARRATIVE REPORT

Achievements in 2019/20

The Council has made progress in a number of areas over the 2019/20 financial year. The majority relate to activities committed to in the 2017 – 2022 Corporate Plan, although it has also taken advantage of opportunities that have arisen throughout the year.

Achievements include:

- Launched our new vision for 2040
- Transitioned our Payroll and HR in-house from our outsourced provider
- Opened a brand new country park at Edenbrook
- Secured £4.3m funding for a link between Fleet Railway Station, Fleet Pond and Hartland Village
- Started a £400k refurbishment of Frogmore Leisure Centre
- Received the Gold Stray Dogs Footprint Award, from the RSPCA, for the 8th year

I NARRATIVE REPORT

I.06 CAPITAL BUDGET

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The overall performance against the [2019/20](#) capital budget is shown in the table below:

Area	Approved Budget 2019/20 £000	Actual Expenditure 2019/20 £000	Variance 2019/20 £000
Corporate Services	497	7,406	6,909
Community Place	530 0	1,256 40	726 40
Environment and Technical	2,724	581	(2,143)
	3,751	9,283	5,532

The significant capital expenditure in 2019/20 was on Investment Property and Office premises in Hedge End. This expenditure was subject to further budget approval in year. Disabled Facilities Expenditure is within Community Services and also makes up a large area of expenditure and increased expenditure in this area was subject to further budget approval.

-The main areas of variation contributing to the overall Net Overspend were as follows: **The major areas of underspend on the capital programme were:**

Corporate Services

The significant variation is due to the deposit paid on the commercial development at Edenbrook and the purchase of the Pavilion offices in Southampton.

I NARRATIVE REPORT

Community Services

The variation in expenditure is due to over performance on the delivery of Disabled Facilities grant. This was expected and was funded by previous year's carry forward creating an earmarked reserve.

Place Services

During the year, an opportunity was provided to purchase the MFDs (multi-functional devices for scanning, photocopying, and printing) rather than leasing. A value for money decision demonstrated it was better value to purchase.

Environment and Technical Services

There is a significant underspend of £2.1m in this service area. Most of this underspend is made up of four key projects:

- Bramshot Country Park underspent by £1,044k due to delays in delivery caused by adverse weather.
- A budget of £220k was provided for waste vehicles which was not spent in year.
- There were delays in delivering the Edenbrook Skate and Bike Part which had a £220k budget allocated to it.
- Budgets were set aside to deliver £268k of works which will now be delivered as part of the Green corridor project so were not delivered in year.

The capital programme for 2019/20 was financed as follows:

Financed By	2019/20 £000
Unfinanced capital spend	<u>7,587,183</u>
PV/LB Borrowing	6,784
Government Grants/Disabled Facilities Grant	1,346,256
Direct Revenue Contributions/Developers Contributions	21,662
Usable Capital Receipts / Earmarked Reserves	<u>329,368</u>
	<u>9,283</u>

1.07 PENSION LIABILITY

Hart District Council

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Statement of Accounts 2019/2020

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I NARRATIVE REPORT

The application of International Accounting Standard (IAS) 19 has resulted in a pension liability of £28.6m shown in the Balance Sheet, an increase of £3.76m in the year.

The liability represents our share of the liability to Hampshire County Council's Pension Fund. This amount is matched by a Pensions Reserve also shown on the Balance Sheet and therefore has no immediate impact on the Council's overall financial position and its General Fund Balances (small differences may arise over the balance sheet date due to accruals being made for invoices not yet received).

Further details are set out in the Accounting Policies and Pension Note (Note 5.15).

IAS19 does not directly impact on the actual level of employer contributions paid to the Hampshire County Council Fund. Employers' levels of contributions are determined by triennial actuarial valuations which are based on the Fund's actual investment strategy (rather than being based on corporate bond yields).

The movement to the Fund is set out in more detail in note 5.15. The total liability has an 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 sound. The deficit on the scheme will be recovered through increased contributions over the remaining life of the employees as assessed by the actuary.

1.08 FINANCIAL OUTLOOK

The Council has not received Revenue Support Grant from 2018/19. It is uncertain whether the Council will be able to achieve substantial increases in Non-Domestic Rates once 75% retention is introduced as commercial development on a large scale is not anticipated. New Homes Bonus funding is also likely to reduce significantly.

The Council was previously reliant on continuing housing development is likely leading to substantial increases in the council tax base and income from the leisure outsourcing contract and commercial income to balance its medium term financial position. Following Covid-19 each of these income streams contain an element of uncertainty. However, in the medium term the Council has sufficient reserves in place to deal with income shortfalls. However, the long term financial sustainability of the Council relies on recovery to pre-Covid income levels to enable the Council to become self-sufficient.

[The Covid-19 outbreak will have a significant financial impact on the council in 2020/21 and the recovery will take place over a number of years. The financial implications of the council's recovery plan will not be fully understood. The council began to experience the impact of the outbreak](#)

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I NARRATIVE REPORT

in March 2020 when a number of front-line service facilities were closed and supplier relief began to be provided to key contractors. There has been an increase in claims for Local Council Tax Support and an expected reduction in business rate income due to business closures. Consequently, the council will suffer significant reductions in income in 2020/21 and beyond. The council's spending has also significantly increased to cope with the outbreak. Whilst some Covid-19 financial support has been received from government, it is unclear as to the extent to which all of the cost pressures and reductions in income will be reimbursed. This represents a financial risk to the council that will form part of future medium term financial planning.

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It should be noted that there is considerable uncertainty nationally about local government finance levels from 2021/22, as a Fair Funding Review is currently under way which may lead to significant changes in the distribution of funding between council tiers.

Medium Term Financial Plan

The Medium Term Financial Plan (MTFP) is based on an analysis of the key influences on the Council's future financial position and an assessment of the main financial risks facing the Council. The financial forecast set out in the table below models income and expenditure and resources available over the next four years, and is considered to be the most likely outcome based on forecasts and assumptions for pay and price inflation, etc.

Given the uncertainty referred to above, the council continually models a range of MTFP scenarios. These are updated as more information becomes available or assumptions change.

I NARRATIVE REPORT

Medium Term Financial Plan	2020/21	2021/22	2022/23
	£'000	£000	£000
Net Costs of Services	10,189	10,394	10,600
Debt Interest	12	12	12
New Homes Bonus	(2,200)	(1,171)	(505)
Net Budget Requirement	8,001	9,235	10,107
Retained Business Rates	(1,280)	(1,320)	(1,360)
Revenue Support Grant	0	0	0
Collection Fund surplus/deficit	0	0	0
NNDR Reserve	0	0	0
Council Tax Income	(7,083)	(7,362)	(7,648)
Council Tax Increase	(203)	(205)	(205)
S106 Receipts	(53)	(53)	(53)
SANG Receipts	(220)	(220)	(220)

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I NARRATIVE REPORT

Commercial Income Target	(0)	(544)	(1,090)
MRP/Loan repayments	469	469	469
To/From Reserves	(369)	0	0

1.09 FURTHER INFORMATION

Further information about these accounts is available from:

Head of Corporate Services
Hart District Council
Civic Offices
Harlington Way
Fleet
Hampshire
GU51 4AE

Telephone: 01252 622122
Email: enquiries@hart.gov.uk

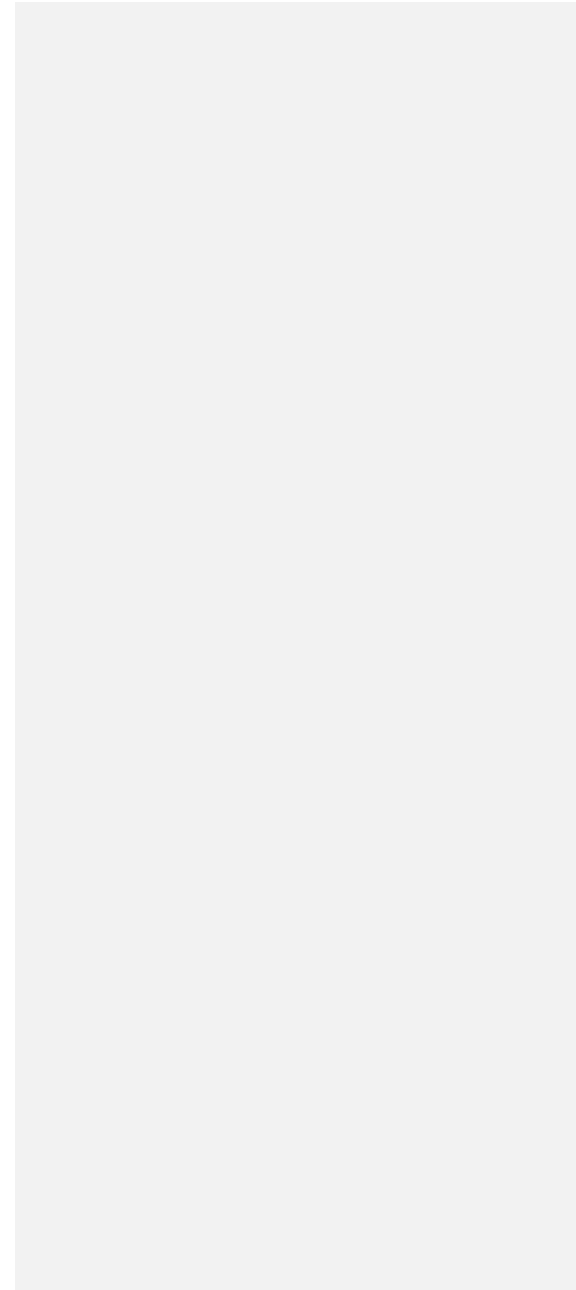
1.10 INSPECTION AND AUDIT

Interested members of the public have the statutory right to inspect these accounts before the audit is completed. For the 2019/20 accounts, the inspection period is 1 September to 14 October 2020. These dates were advertised on the Council's website.

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I NARRATIVE REPORT



2 STATEMENT OF RESPONSIBILITIES

2.01 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 Head of Corporate Services, Emma Victoria Foy.
- Manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets.
- Approve the Statement of Accounts.

2.02 CHIEF FINANCE OFFICER RESPONSIBILITIES

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

In preparing this Statement of Accounts, the chief financial officer has:

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

The Section 151 Officer also:

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

2.03 CHIEF FINANCE OFFICER CERTIFICATE

I certify that the Statement of Accounts 2019/20 present a true and fair view of the financial position of the council (the Balance Sheet) and of its income and expenditure for the year ended 31 March 2020.



Signed

Date 26/08/20

Emma Victoria Foy, FCCA

Hart District Council

Head of Corporate Services and S151 Officer

2.04 CHAIRMAN OF AUDIT COMMITTEE CERTIFICATE

I certify that the Statement of Accounts 2019/20 has received the full approval of Members.

Signed

Date

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Statement of Accounts 2019/2020

2 STATEMENT OF RESPONSIBILITIES

Wendy Makepeace-Browne
Chairman, Audit Committee

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3 COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

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

	Note	2018/19			2019/20		
		Gross Expenditure	Gross Income	Net Expenditure	Gross Expenditure	Gross Income	Net Expenditure
		£'000	£'000	£'000	£'000	£'000	£'000
Community Services		3,169	(7,597)	(4,428)	4,350	(3,906)	444
Corporate Services		24,806	(18,608)	6,198	23,480	(15,251)	8,229
Regulatory Services		3,362	(1,743)	1,619	3,844	(1,889)	1,955
Technical and Env. Maintenance		9,761	(7,764)	1,997	10,574	(9,961)	613
Cost of Services		41,098	(35,712)	5,386	42,248	(31,007)	11,241
Other Operating Expenditure	3.04	3,109	(98)	3,011	3,233	(90)	3,143
Financial & Investment Income	3.05	941	(367)	575	841	(364)	477
Taxation and non-specific grant income and expenditure	3.06	11,604	(25,841)	(14,237)	11,730	(26,735)	(15,005)
(Surplus) or Deficit on provision of services		56,752	(62,016)	(5,265)	58,052	(58,196)	(144)
(Surplus) or Deficit on the revaluation of property, plant and equipment assets				133			(3,554)
(Surplus)/deficit on financial assets measured at fair value through other comprehensive income				11			0
Remeasurement of the net defined benefit liability/(asset)				(2,970)			2,915
Other Comprehensive Income and Expenditure				(2,826)			(639)
Total Comprehensive Income and Expenditure				(8,092)			(783)

4 MOVEMENT IN RESERVES STATEMENT

The Movement in Reserves Statement shows the movement from the start to the end of 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'. The Statement shows how the movements in year of the council's reserves are broken down between gains and losses incurred in accordance with generally accepted accounting practices and the statutory adjustments required to return to the amounts chargeable to council tax (or rents) for the year. The Net Increase/Decrease line shows the statutory General Fund Balance movement in the year following those adjustments. This balance includes earmarked reserves which have been segregated within the General Fund for specific projects.

2019/20	General Fund Balance	Capital Receipts Reserve	Capital Grants Unapplied Account	Total Usable Reserves	Unusable Reserves	Total Council Reserves
	£000	£000	£000	£000	£000	£000
Balance at 31 March 2019	19,220	746	9,484	29,450	1,050	30,500
Total Comprehensive Income and Expenditure	144	0	0	144	639	783
Adjustments between accounting basis and funding basis under regulation (Note 4.01)	3,192	(151)	2,050	5,091	(5,091)	0
Increase or (decrease) in year	3,336	(151)	2,050	5,235	(4,452)	783
Balance at 31 March 2020	22,556	595	11,534	34,685	(3,402)	31,283

4 MOVEMENT IN RESERVES STATEMENT

2018/19	General Fund Balance	Capital Receipts Reserve	Capital Grants Unapplied Account	Total Usable Reserves	Unusable Reserves	Total Council Reserves
	£000	£000	£000	£000	£000	£000
Balance at 31 March 2018	16,732	641	9,133	26,505	(4,097)	22,408
Total Comprehensive Income and Expenditure	5,265	0	0	5,265	2,826	8,092
Adjustments between accounting basis and funding basis under regulation (Note 4.01)	(2,777)	105	352	(2,321)	2,321	0
Increase or (decrease) in year	2,488	105	352	2,945	5,147	8,092
Balance at 31 March 2019	19,220	746	9,485	29,450	1,050	30,500

5 BALANCE SHEET STATEMENT

		31 March 2019	31 March 2020
	Note	£000	£000
Property, Plant & Equipment	5.01		
Other land and buildings		36,835	36,307
Vehicles, plant, furniture and equipment		1,063	1,155
Infrastructure assets		201	238
Community assets		3,954	4,014
Assets under construction		0	755
Surplus assets		51	42
		42,104	42,511
Investment properties	5.02	70	6,350
Intangible assets	5.03	17	8
Long term debtors	5.05	1,321	1,254
Long Term Assets		43,512	50,123
Short term investments	5.04	12,000	11,000
Assets held for sale	5.07	88	0
Short term debtors	5.05	4,517	5,051
Cash and cash equivalents	5.06	19,261	18,760
Current Assets		35,866	34,811

The Balance Sheet shows the value of the assets and liabilities recognised by the council as at the balance sheet date. The net assets of the council (assets less liabilities) are matched by the reserves held by the council.

Grants received in advance are presented as a separate category of liabilities for the years ending 2019 and 2020 instead of short term creditors.

		31 March 2019	31 March 2020
	Note	£000	£000
Short term borrowing	5.08	(1,372)	(1,377)
Short term creditors	5.09	(5,222)	(7,247)
Provisions	5.10	(334)	(302)
Current Liabilities		(6,928)	(8,926)
Long term borrowing	5.08	(12,277)	(11,008)
Pension liability	5.15	(24,854)	(28,610)
Grants received in advance - Rev	5.17	(4,819)	(5,107)
Long Term Liabilities		(41,950)	(44,725)
Net Assets		30,500	31,283

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5 BALANCE SHEET STATEMENT

		31 March 2019	31 March 2020
	Note	£000	£000
Usable Reserves			
Earmarked reserves	5.11.1	13,682	16,176
General fund		5,537	6,380
Capital receipts		746	595
Capital grants unapplied		9,484	11,534
		29,450	34,685
Unusable Reserves			
Revaluation reserve	5.12.1	3,451	6,876
Capital adjustment account	5.12.3	22,564	18,588
Financial instrument adjustment account	5.12.4	23	(12)
Pension reserve	5.12.5	(24,773)	(28,531)
Collection fund	5.12.6	(167)	(255)
Accumulated absences	5.12.7	(48)	(68)
		1,050	(3,402)
Total Reserves		30,500	31,283

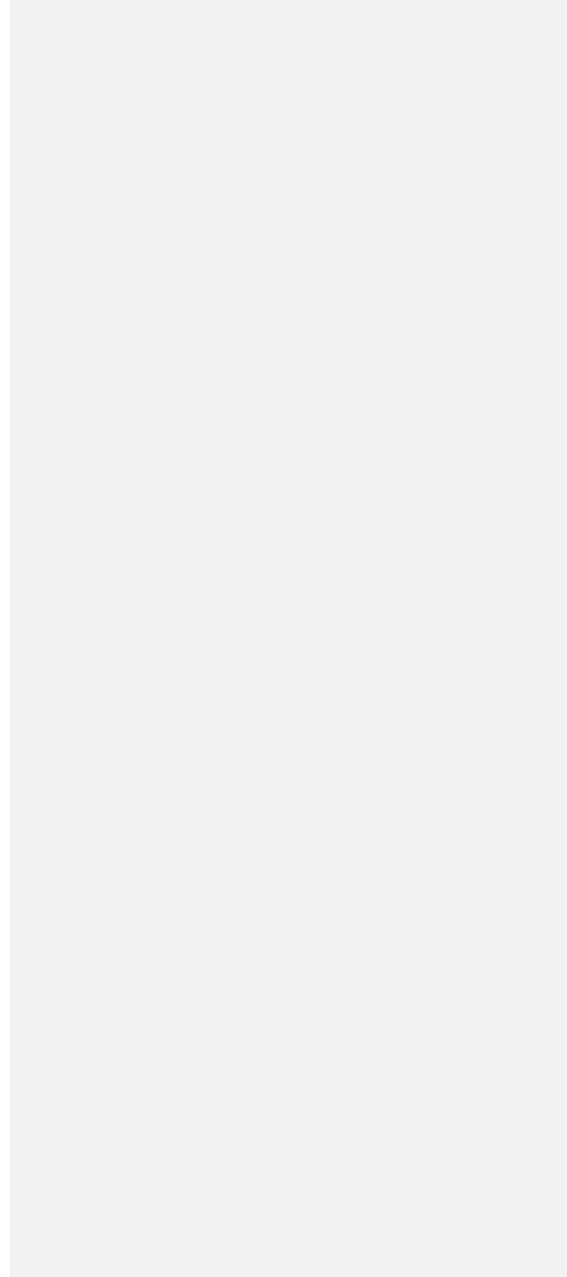
Reserves are reported in two categories. The first category of reserves are usable reserves, i.e. those reserves that the council may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use (for example the Capital Receipts Reserve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

[These financial statements replace the unaudited financial statements certified by Emma Foy, Head of Corporate Services and S151 Officer on 26 August 2020.](#)

Signed Date.....

[Emma Victoria Foy, FCCA](#)
[Head of Corporate Services and S151 Officer](#)

5 BALANCE SHEET STATEMENT



6 CASHFLOW STATEMENT

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

This cash flow statement is prepared using the indirect method whereby the Surplus or Deficit on the Provision of Services is adjusted for non-cash items, removing the effects of accruals and extracting transactions relating to investing or financing activities.

	Note	2018/19 £000	2019/20 £000
Net surplus or (deficit) on the provision of services		5,265	144
Adjustments to net surplus or deficit on the provision of services for non-cash movements		3,133	6,788
Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities		(7,320)	(3,549)
Net cash flows from Operating Activities	6.01	1,078	3,383
Investing Activities	6.02	6,016	(3,230)
Financing Activities	6.03	(544)	(655)
Net increase or (decrease) in cash and cash equivalents		6,550	(502)
Cash and cash equivalents at the beginning of the reporting period		12,712	19,262
Cash and cash equivalents at the end of the reporting period	5.06	19,262	18,760

3 NOTES TO THE COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

3.01 EXPENDITURE AND FUNDING ANALYSIS

The Expenditure and Funding Analysis shows how 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 this 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.

	Net Expenditure chargeable to the General Fund £000	Adjustments between the Funding and Accounting Basis £000	2018/19 Net Expenditure in the Comprehensive Income and Expenditure Statement £000	Net Expenditure chargeable to the General Fund £000	Adjustments between the Funding and Accounting Basis £000	2019/20 Net Expenditure in the Comprehensive Income and Expenditure Statement £000
Community Services	778	5,206	(4,428)	1,637	1,193	444
Corporate Services	3,049	(3,149)	6,199	3,670	(4,559)	8,229
Regulatory Services	1,545	(75)	1,619	1,607	(348)	1,955
Technical and Env. Maintenance	1,539	(457)	1,997	309	(304)	613
Cost of Services	6,911	1,524	5,387	7,223	(4,018)	11,241
Other income and expenditure	(9,398)	1,254	(10,652)	(10,559)	826	(11,385)
(Surplus) or Deficit	(2,487)	2,778	(5,265)	(3,336)	(3,192)	(144)
Opening General Fund Balance	(16,733)			(19,220)		
Plus Surplus on General Fund in year	(2,487)			(3,336)		
Closing General Fund Balance	(19,220)			(22,556)		

3 NOTES TO THE COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

3.02 NOTE TO THE EXPENDITURE AND FUNDING ANALYSIS

2019/20	Adjustments between Funding and Accounting Basis			
Adjustments from General Fund to arrive at the Comprehensive Income and Expenditure Statement amounts	Adjustments for Capital Purposes	Net Change for the Pensions Adjustments	Other Differences	Total Adjustments
	£000	£000	£000	£000
Community Services	1,252	(59)	0	1,193
Corporate Services	(4,430)	(122)	(7)	(4,559)
Regulatory Services	(212)	(128)	(8)	(348)
Technical and Env. Maintenance	(187)	(112)	(5)	(304)
Net Cost of Services	(3,577)	(421)	(20)	(4,018)
Other income and expenditure from the Expenditure and Funding Analysis	1,336	(422)	(88)	826
Difference between General Fund surplus or deficit and Comprehensive Income and Expenditure Statement Surplus or Deficit on the Provision of Services	(2,241)	(843)	(108)	(3,192)

3 NOTES TO THE COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

2018/19	Adjustments between Funding and Accounting Basis			
Adjustments from General Fund to arrive at the Comprehensive Income and Expenditure Statement amounts	Adjustments for Capital Purposes	Net Change for the Pensions Adjustments	Other Differences	Total Adjustments
	£000	£000	£000	£000
Community Services	5,217	(10)	(1)	5,206
Corporate Services	(2,656)	(494)	1	(3,149)
Regulatory Services	(53)	(20)	(2)	(75)
Technical and Env. Maintenance	(438)	(17)	(2)	(457)
Net Cost of Services	2,070	(541)	(5)	1,524
Other income and expenditure from the Expenditure and Funding Analysis	1,250	(510)	513	1,254
Difference between General Fund surplus or deficit and Comprehensive Income and Expenditure Statement Surplus or Deficit on the Provision of Services	3,320	(1,051)	508	2,778

3 NOTES TO THE COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

Adjustments for Capital Purposes

For **Services** this column adds in depreciation, impairment and revaluations gains and losses.

Other operating expenditure – adjusts for capital disposals with a transfer of income on disposal of assets and the amounts written off for those assets.

Financing and investment income and expenditure – the statutory charges for capital financing i.e. Minimum Revenue Provision and other revenue contributions are deducted from other income and expenditure as these are not chargeable under generally accepted accounting practices.

Taxation and non-specific grant income and expenditure – capital grants are adjusted for income not chargeable under generally accepted accounting practices. Revenue grants are adjusted from those receivable in the year to those receivable without conditions or for which conditions were satisfied throughout the year. The Taxation and Non Specific Grant Income and Expenditure line is credited with capital grants receivable in the year without conditions or for which conditions were satisfied in the year

Net change for the Pensions Adjustments

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

For **services** this represents the removal of the employer pension contributions made by the authority as allowed by statute and the replacement with current service costs and past service costs.

For **Financing and investment income and expenditure** – the net interest on the defined benefit liability is charged to the CIES.

Other Differences

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

For **services** this represents the change in the accumulated absences reserve attributable to each service.

For **Financing and investment income and expenditure** the other differences column recognises adjustments to the General Fund for the timing differences for premiums and discounts.

The charge under **Taxation and non-specific grant income and expenditure** represents the difference between what is chargeable under statutory regulations for council tax and NDR that was projected to be received at the start of the year and the income recognised under generally accepted accounting practices in the Code. This is a timing difference as any difference will be brought forward in future Surpluses or Deficits on the Collection Fund.

3 NOTES TO THE COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

3.03 INCOME AND EXPENDITURE ANALYSED BY NATURE

The authority's expenditure and income is analysed as follows.

Changes on the following lines in this Note: Fees, charges and other service income and Government grants and contributions for 2018/19 are presentation adjustments only for the reclassification of Housing Benefit Subsidy Income, and does not affect the final figure for the Surplus on the Provision of Services for 2018/19.

	2018/19 £'000	2019/20 £'000
Expenditure		
Employee benefits expenses	6,296	6,457
Other services expenses	30,603	30,214
Depreciation, amortisation, impairment	4,198	6,157
Interest payments	941	258
Changes in fair value of investment properties	0	3
Precepts and levies	3,109	3,233
Non-domestic rates tariff, levy and deficit charges	11,604	11,730
Total Expenditure	56,751	58,052
Income		
Fees, charges and other service income	(20,757)	(14,356)
Interest and investment income	(367)	(364)
Income from council tax and non-domestic rates	(22,929)	(23,601)
Government grants and contributions	(17,865)	(19,785)
Gain on the disposal of assets	(98)	(90)
Total Income	(62,016)	(58,196)
Surplus or Deficit on the Provision of Services	(5,265)	(144)

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3 NOTES TO THE COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

3.04 OTHER OPERATING EXPENDITURE

	2018/19	2019/20
	£000	£000
Parish council precepts	3,109	3,233
(Gains)/loss on the disposal of non-current assets	(98)	(90)
	<u>3,011</u>	<u>3,143</u>

3.05 FINANCING AND INVESTMENT INCOME AND EXPENDITURE

	2018/19	2019/20
	£000	£000
Interest payable and similar charges	271	258
Net interest on the defined benefit liability	670	580
Interest receivable and similar income	(367)	(334)
(Income) and expenditure in relation to investment properties and changes in their fair value	0	(27)
	<u>575</u>	<u>477</u>

3 NOTES TO THE COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

3.06 TAXATION AND NON SPECIFIC GRANT INCOME AND EXPENDITURE

	2018/19	2019/20
	£000	£000
Council tax income	(9,798)	(10,272)
Non-domestic rates income and safety net	(13,131)	(13,329)
Non-domestic rates tariff, levy and deficit charges	11,604	11,730
Non-ring fenced government grants	(2,192)	(2,344)
Capital grants and contributions	(720)	(790)
	(14,237)	(15,005)

The breakdown of 'non-ring fenced government grants' and 'capital grants and contributions' can be seen in more detail in note 3.12 Grant Income.

3.07 MATERIAL ITEMS OF INCOME AND EXPENSE

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

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

3 NOTES TO THE COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

3.08 AGENCY SERVICES

The council provides a number of services on behalf of Hampshire County Council. In 2019/20 the council received £134,177 for providing these services (2018/19 £155,970).

3.09 MEMBERS ALLOWANCES

The council paid the following amounts to members of the council during the year:

	2018/19	2019/20
	£000	£000
Allowances	237	232
Expenses	7	7
	<u>244</u>	<u>239</u>

3 NOTES TO THE COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

3.10 OFFICERS' REMUNERATION AND TERMINATION BENEFITS

3.10.1 Remuneration

The remuneration paid to the council's senior employees is shown below.

		Salary, Fees and Allowances £	Expenses Allowances £	Pension Contributions £	Compensation on Loss of Office £	Total £
Joint Chief Executive	2019/20	98,106	3,969	15,795	0	117,870
	2018/19	96,183	3,869	14,445	0	114,497
Joint Chief Executive ***	2019/20	104,460	3,969	15,795	0	124,224
	2018/19	96,183	3,871	14,445	0	114,498
Section 151 Officer and Head of Corporate Services	2019/20	79,078	2,555	12,731	0	94,364
	2018/19	80,178	1,239	12,044	0	93,461
Head of Regulatory Services* now Place	2019/20	27,278	0	4,391	0	31,669
	2018/19	86,484	1,198	9,839	39,751	137,272
Head of Environmental and Technical Services	2019/20	69,096	3,000	10,649	0	82,745
	2018/19	67,852	3,000	10,190	0	81,042
Head of Community Services**	2019/20	69,629	1,895	11,210	0	82,734
	2018/19	59,826	1,661	9,034	0	70,521

*The previous Head of Regulatory Services left on the 31 March 2019. The new Head of Regulatory Services started in December 2019 and is now the Head of Place.

**The previous Head of Community Services left in 2018/19.

***Salary, Fees and Allowances includes allowance payable for role of returning officer during Election years.

3 NOTES TO THE COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

The council's other employees whose remuneration, excluding employer's pension contributions, was £50,000 or more in bands of £5,000 were:

	Number of Employees 2018/19	Number of Employees 2019/20
£50,000 to £54,999	2	56
£55,000 to £59,999	0	16
£60,000 to £64,999	2	10
£65,000 to £69,999	1	11
	<u>5</u>	<u>83</u>

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3 NOTES TO THE COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

3.10.2 Termination Benefits

Termination benefits are amounts payable as a result of a decision by the council to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy and are charged on an accruals basis to the appropriate service in the Comprehensive Income and Expenditure Statement at the earlier of when the council can no longer withdraw the offer of those benefits or when the council recognises costs for a restructuring.

The number of exit packages with total cost per band and total cost of the compulsory and other redundancies are set out in the table below:

	Number of compulsory redundancies		Number of other departures agreed		Total number of exit packages by cost band		Total cost of exit packages in each band £s	
	2018/19	2019/20	2018/19	2019/20	2018/19	2019/20	2018/19	2019/20
£0 - £20,000	0	1	0	0	0	1	0	1,824
£20,001 - £40,000	0	1	0	0	0	1	0	20,832
£40,001 - £60,000	1	0	0	0	1	0	57,024	0
	1	2	0	0	1	2	57,024	22,656

3 NOTES TO THE COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

3.11 EXTERNAL AUDIT COSTS

The council has incurred the following costs in relation to the audit of the Statement of Accounts and certification of grant claims provided by the council's external auditors, Ernst and Young LLP.

Per audited statement of accounts the audit fee for 2018/19 was £44k for the appointed auditor work and £10k for the certification of grant claims. The ISA260 report stated that the audit fees for 2018/19 would be subject to overruns and therefore the 2018/19 audit fee for 2018/19 exceeds what was disclosed last year as shown below.

	2018/19 £000	2019/20 £000
Fees payable to external auditors with regard to external audit services carried out by the appointed auditor for the year	63	41
Fees payable to external auditors for the certification of grant claims and returns for the year	12	12
	<u>75</u>	<u>53</u>

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3 NOTES TO THE COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

3.12 GRANT INCOME

Grants, 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 revenue 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 revenue grant or contribution are required to be consumed by the recipient as specified, or the future economic benefits or service potential must be returned to the transferor.

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

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

3 NOTES TO THE COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

The council credited the following grants, contributions and donations to the Comprehensive Income and Expenditure Statement in 2019/20:

	2018/19	2019/20
	£000	£000
Credited to Taxation and Non Specific Grant Income		
Non-ring fenced Government Grants		
New Homes Bonus	(2,148)	(2,283)
Other Non-ring fenced Government Grants	(43)	(61)
	(2,192)	(2,344)
Capital Grants and Contributions		
Developer's Leisure Contributions	(705)	(108)
Other Capital Grants and Contributions	(15)	(682)
	(720)	(790)
	(2,912)	(3,134)
Credited to Services		
Housing Benefits/Council Tax Subsidy and Grants	(14,051)	(12,608)
Disabled Facilities Grant	(685)	(739)
Welfare	(758)	(906)
Other Grants and Contributions	(432)	(2,398)
	(15,925)	(16,651)

3 NOTES TO THE COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

3.13 OPERATING LEASES

3.13.1 Council as Lessee

Leases that do not meet the definition of finance leases are accounted for as operating leases and the expenditure is charged to service revenue accounts on a straight-line basis over the term of the lease. The land and buildings elements of a lease require separate identification for both lease classifications and subsequent valuation. In most cases, the land element of a lease will be an operating lease.

The council has not entered into any operating leases to procure any property, plant, vehicles or equipment.

3.13.2 Council as Lessor

Where the council grants an operating lease over a property or an item of plant or equipment, the asset is retained in the Balance Sheet. Rental income is credited to the Financing and Investment 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.

The Council owns a number of property, plant and equipment assets that are leased to other bodies for one or a combination of the following purposes:

- To gain rental income from its investment properties
- For economic development purposes to provide suitable affordable accommodation for local businesses.
- To provide leisure facilities for public use.

3 NOTES TO THE COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

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

	31 March 2019	31 March 2020
	£000	£000
Not later than one year	(1,182)	(1,281)
Later than one year and not later than five years	(5,875)	(6,338)
Later than five years	(5,598)	(3,854)
	<u>(12,655)</u>	<u>(11,473)</u>

3.14 CONSTRUCTION CONTRACTS

At 31 March 2020 the Council had one significant contract to build 42 flats at Edenbrook with Berkeley Homes Ltd.

4 NOTES TO THE MOVEMENT IN RESERVES STATEMENT

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

General Fund Balance

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

Capital Receipts Reserve

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

Capital Grants Unapplied

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

4 NOTES TO THE MOVEMENT IN RESERVES STATEMENT

2019/20	General Fund Balance	Capital Receipts Reserve	Capital Grants Unapplied
	£000	£000	£000
Adjustments to the Revenue Resources			
Amounts by which income and expenditure included in the Comprehensive Income and Expenditure Statement are different from revenue for the year calculated in accordance with statutory requirements			
Pensions Costs (<i>transferred to (or from) the Pensions Reserve</i>)	843	0	0
Financial Instruments (<i>transferred to the Financial Instruments Adjustments Account</i>)	36	0	0
Council tax and NDR (<i>transfers to (or from) Collection Fund</i>)	88	0	0
Holiday Pay (<i>transferred to the Accumulated Absences Reserve</i>)	20	0	0
Reversal of entries included in the Surplus or Deficit on the Provisions of Services in relation to capital expenditure (<i>these items are charged to the Capital Adjustment Account</i>)	2,849	0	2,322
Total Adjustments to Revenue Resources	3,836	0	2,322
Adjustments between Revenue and Capital Resources			
Transfer of non-current asset sale proceeds from revenue to the Capital Receipts Reserve	(178)	178	0
Statutory provision for the repayment of debt (<i>transfer from the Capital Adjustment Account</i>)	(445)	0	0
Capital expenditure financed from revenue balances (<i>transfer to the Capital Adjustment Account</i>)	(21)	0	0
Total Adjustments between Revenue and Capital Resources	(644)	178	0
Adjustments to Capital Resources			
Use of the Capital Receipts Reserve to finance capital expenditure	0	(329)	0
Total Adjustments to Capital Resources	0	(329)	(272)
Total Adjustments	3,192	(151)	2,050

4 NOTES TO THE MOVEMENT IN RESERVES STATEMENT

2018/19	General Fund Balance	Capital Receipts Reserve	Capital Grants Unapplied
	£000	£000	£000
Adjustments to the Revenue Resources			
Amounts by which income and expenditure included in the Comprehensive Income and Expenditure Statement are different from revenue for the year calculated in accordance with statutory requirements			
Pensions Costs (transferred to (or from) the Pensions Reserve)	1,051	0	0
Financial Instruments (transferred to the Financial Instruments Adjustments Account)	211	0	0
Council tax and NDR (transfers to (or from) Collection Fund)	(513)	0	0
Holiday Pay (transferred to the Accumulated Absences Reserve)	5	0	0
Reversal of entries included in the Surplus or Deficit on the Provisions of Services in relation to capital expenditure (these items are charged to the Capital Adjustment Account)	(2,999)	0	352
Total Adjustments to Revenue Resources	(2,245)	0	352
Adjustments between Revenue and Capital Resources			
Transfer of non-current asset sale proceeds from revenue to the Capital Receipts Reserve	(110)	110	0
Statutory provision for the repayment of debt (transfer from the Capital Adjustment Account)	(422)	0	0
Total Adjustments between Revenue and Capital Resources	(532)	110	0
Adjustments to Capital Resources			
Use of the Capital Receipts Reserve to finance capital expenditure	0	(5)	0
Total Adjustments to Capital Resources	0	(5)	0
Total Adjustments	(2,777)	105	352

5 NOTES TO THE BALANCE SHEET

5.01 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.

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

Assets are initially measured at cost, comprising the purchase price plus any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating on the manner intended by management.

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 and Expenditure line of the Comprehensive Income and Expenditure Statement, unless the donation has been made conditionally. Until conditions are satisfied, the gain is held in the Donated Assets Account. Where gains are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund Balance to the Capital Adjustment Account in the Movement in Reserves Statement.

Charges to Revenue for Non-current Assets – Services and support services are debited with the following amounts to record the cost of holding non-current assets during the year:

- depreciation attributable to the assets used by the relevant service
- revaluation and impairment losses on assets used by the service where there are no accumulated gains in the Revaluation Reserve against which the losses can be written off
- 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, the Minimum Revenue Provision (MRP), towards the reduction in its overall borrowing requirement (equal to an amount calculated on a prudent basis determined by the council in accordance with statutory guidance). Depreciation, revaluation and impairment losses and amortisation are therefore replaced by the contribution in the General Fund Balance, by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

5 NOTES TO THE BALANCE SHEET

Component Accounting - Where components of an asset are significant in value in relation to the value of the asset as a whole, and they have substantially different economic lives, they will be recognised separately. Components will be recognised separately as and when they are replaced or re-valued. Individual assets valued at less than £200,000 will be disregarded for componentisation.

5.01.1 Revaluations

The council carries out a rolling programme that ensures all Property, Plant and Equipment required to be measured at current value is revalued at least every five years. For the 2019/20 financial year, valuations were carried out as at 31 March 2020. Increases in valuation are matched by credits to the Revaluation Reserve to recognise unrealised gains. Where decreases (an impairment) 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 on the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line in the Comprehensive Income and Expenditure Statement.

All valuations were carried out externally by independent valuers Capita Property and Infrastructure Ltd. Valuations of land and buildings were carried out in accordance with methodologies and basis for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors. Valuations of vehicles, plant and equipment are based on current prices where there is an active second-hand market or latest list prices adjusted for the condition of the asset.

Assets are then carried on the Balance Sheet using the following measurement basis:

- Infrastructure, community assets and assets under construction – depreciated historical cost
- Surplus Assets – fair value
- All other Assets – current value

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

Fair Value - The council measures some of its non-financial assets, such as surplus assets and investment properties 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

5 NOTES TO THE BALANCE SHEET

participants at the measurement date. The fair value measurement assumes that the transaction to sell the asset or transfer the liability takes place either:

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

The council measures the fair value of an asset or liability on the same basis that market participants would use when pricing the asset or liability (assuming those market participants were acting 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 appropriate valuation techniques for each circumstance, maximising the use of relevant known data and minimising the use of estimates or unknowns. This takes into account the three levels of categories for inputs to valuations for fair value assets:

Level 1 – quoted prices.

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

Level 3 – unobservable inputs for the asset or liability

5 NOTES TO THE BALANCE SHEET

The council's surplus assets have been assessed as Level 3 for valuation purposes.

	Other Land & Buildings £000	Vehicles, Plant & Equipment £000	Infrastructure Assets £000	Community Assets £000	Assets Under Construction £000	Surplus Assets £000	Total £000
Carried at historical cost	0	2,755	267	4,402	755	0	8,179
Valued at:							
31 March 2020	28,642	0	0	0	0	42	28,684
31 March 2019	6,453	0	0	0	0	0	6,453
31 March 2018	700	0	0	0	0	0	700
31 March 2017	630	0	0	0	0	0	630
31 March 2016	160	0	0	0	0	0	160
Total cost or valuation	36,585	2,755	267	4,402	755	42	44,806

5.01.2 Impairment

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

There were no impairment losses recognised in the year 2019/20 (2018/19 had no impairment losses). Impairment losses are charged to the Comprehensive Income and Expenditure Statement then reversed out to the Capital Adjustments Account through the Movement in Reserves Statement.

5 NOTES TO THE BALANCE SHEET

5.01.3 Depreciation

Depreciation is provided for on all Property, Plant and Equipment assets by the systematic allocation of their depreciable amounts over their useful lives. An exception is made for assets without a determinable finite useful life and assets that are not yet available for use such as assets under construction.

Depreciation is calculated on a straight-line allocation over the useful life of the assets. Where an item of Property, Plant and Equipment has major components whose cost is significant in relation to the total cost of the item, the components are depreciated separately.

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

Depreciation is calculated on the following bases:

- Infrastructure - straight line allocation 25 years
- Buildings – straight line allocation over the life of the property as estimated by the valuer
- Land – not depreciated
- Assets under construction – not depreciated
- Vehicles, plant and equipment – straight line allocation over 3 to 7 years
- IT and Intangible Assets – straight line allocation over 5 years

5.01.4 Capital Commitments

At the 31 March 2020, the authority has entered into an agreement for the construction of two blocks of 41 apartments at Hitches Lane, Fleet for future years at a budgeted cost of £7m. Capital commitments in place at the 31 March 2019 were £7m.

5 NOTES TO THE BALANCE SHEET

5.01.5 Movements on Balances

2019/20	Other Land & Buildings	Vehicles, Plant, Furniture & Equipment	Infrastructure Assets	Community Assets	Assets Under Construction	Surplus Assets	Total
	£000	£000	£000	£000	£000	£000	£000
Cost or Valuation							
At 1 April 2019	36,935	3,350	219	4,284	0	51	44,839
Additions	381	322	48	118	755	0	1,624
Revaluation increases / (decreases) recognised in the Revaluation Reserve	2,525	0	0	0	0	(2)	2,523
Revaluation increases / (decreases) recognised in the Surplus / Deficit on the Provision of Services	(3,256)	0	0	0	0	(7)	(3,263)
Derecognition - disposals	0	(917)	0	0	0	0	(917)
At 31 March 2020	36,585	2,755	267	4,402	755	42	44,806
Accumulated Depreciation & Impairment							
At 1 April 2019	(101)	(2,287)	(18)	(330)	0	0	(2,736)
Depreciation charge	(1,305)	(230)	(11)	(58)	0	(36)	(1,640)
Depreciation written out to the Revaluation Reserve	1,031	0	0	0	0	0	1,031
Depreciation written out to the Surplus / Deficit on the Provision of Services	97	0	0	0	0	36	133
Derecognition - disposals	0	917	0	0	0	0	917
At 31 March 2020	(278)	(1,600)	(29)	(388)	0	0	(2,295)
Net Book Value							
31 March 2020	36,307	1,155	238	4,014	755	42	42,511
31 March 2019	36,835	1,063	201	3,954	0	51	42,103

5 NOTES TO THE BALANCE SHEET

2018/19	Other Land & Buildings	Vehicles, Plant, Furniture & Equipment	Infrastructure Assets	Community Assets	Surplus Assets	Total
	£000	£000	£000	£000	£000	£000
Cost or Valuation						
At 1 April 2018	40,408	3,027	162	4,284	48	47,929
Additions	355	323	57	0	0	734
Revaluation increases / (decreases) recognised in the Revaluation Reserve	(2,317)	0	0	0	(10)	(2,327)
Revaluation increases / (decreases) recognised in the Surplus / Deficit on the Provision of Services	(1,511)	0	0	0	25	(1,485)
Derecognition - disposals	0	0	0	0	(12)	(12)
At 31 March 2019	36,935	3,350	219	4,284	51	44,839
Accumulated Depreciation & Impairment						
At 1 April 2018	(1,478)	(2,128)	(10)	(264)	(3)	(3,883)
Depreciation charge	(1,319)	(160)	(8)	(65)	0	(1,552)
Depreciation written out to the Revaluation Reserve	2,194	0	0	0	0	2,194
Depreciation written out to the Surplus / Deficit on the Provision of Services	503	0	0	0	3	506
At 31 March 2019	(101)	(2,287)	(18)	(330)	0	(2,736)
Net Book Value						
31 March 2019	36,835	1,063	201	3,954	51	42,103
31 March 2018	38,930	900	152	4,020	45	44,047

5 NOTES TO THE BALANCE SHEET

5.02 INVESTMENT PROPERTIES

An investment property is defined as a property which is held exclusively for revenue generation or for the capital gains that the asset is expected to generate. In this respect, the asset is not used directly to deliver the council's services.

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

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

Fair Value - The council's investment property portfolio has been assessed as Level 2 for valuation purposes (see Note 5.01.1 for explanation of fair value levels).

Valuations have taken account of the following factors: existing lease terms and rentals taken from the tenancy schedule, independent research into market evidence including Market rentals and yields, and then adjusted to reflect the nature of each business tenancy or void and the covenant strength for existing tenants. There has been no change in the valuation techniques used during the year for investment properties.

	2018/19 £000	2019/20 £000
Rental income from investment property	13	30
Net gain	<u>13</u>	<u>30</u>

5 NOTES TO THE BALANCE SHEET

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

	2018/19	2019/20
	£000	£000
Balance at start of year	70	70
Additions:		
Purchases	0	6,283
Net gains or (losses) from fair value adjustments	0	(3)
Balance at end of year	70	6,350

5.03 INTANGIBLE ASSETS

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

Intangible assets are measured initially at cost. The depreciable amount of an intangible asset is amortised over its useful life to the relevant service area in the Comprehensive Income and Expenditure Statement. An asset is tested for impairment whenever there is an indication that the asset might be impaired. Any gain or loss arising on the disposal or abandonment of an intangible asset is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement.

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 only purchased licenses.

All software is given a finite useful life, based on assessments of the period that the software is expected to be of use to the council. The useful lives assigned to the major software suites used by the council are all for 5 years.

5 NOTES TO THE BALANCE SHEET

The carrying amount of intangible assets is amortised on a straight-line basis. The amortisation of £9k charged to revenue in 2019/20 was charged to the IT and Finance Administration cost centre and then absorbed as an overhead across all the service headings in the Net Expenditure of Services.

	2018/19	2019/20
	£000	£000
Balance at the start of year:		
Gross carrying amounts	366	366
Accumulated amortisation	(331)	(349)
Net carrying amount at the start of the year	<u>35</u>	<u>17</u>
Disposals	0	(4)
Amortisation for the period	(18)	(9)
Other changes - Amortisation on disposals	0	4
Net carrying amount at the end of year	<u>17</u>	<u>8</u>
Comprising:		
Gross carrying amounts	366	362
Accumulated amortisation	(349)	(354)
	<u>17</u>	<u>8</u>

5.04 FINANCIAL INSTRUMENTS

5.04.1 Categories of Financial Instruments

Financial liabilities are recognised on the balance sheet when authority 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

5 NOTES TO THE BALANCE SHEET

expenditure line in the comprehensive income and expenditure statement (CIES) for interest payable are based on the carrying amount of liability, multiplied by the effective rate of interest for the instrument. The effective 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 borrowings that the authority has, this means that the amount presented in the balance sheet is the outstanding principal repayable (plus accrued interest); and interest charged to the CIES is the amount payable for the year according to the loan agreement.

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)

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

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

Expected credit losses for all of financial assets held at amortised cost are recognised either on a 12-month or lifetime basis. The expected credit loss model also applies to lease receivables, and contract assets and trade receivables with a significant financing component. Due to our ECLM not being material no changes to the accounts have been made and no disclosures included.

Impairment losses are calculated to reflect the expectation that the future cash flows might not take place because the borrower could default on their obligations. Credit risk plays a crucial part in assessing losses.

5 NOTES TO THE BALANCE SHEET

Where risk has increased significantly since an instrument was initially recognised, losses are assessed on a lifetime basis. Where risk has not increased significantly or remains low, losses are assessed on the basis of 12-month expected losses.

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

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

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

Restatements of 2018/19 figures in Financial Assets and Financial Liabilities tables in this Note are due to following adjustments;

- Presentation adjustment to realign the Note against the Code (Soft loan presented as separate category)
- Restatement of figure: Current Debtors at Amortised cost to include items that are financial instruments only
- Restatement of figure: Current Creditors at Amortised cost to include items that are financial instruments only

Changes affecting 2018/19 restatement for this Note 5.04.1 are also directly related to Note 5.04.5 which has therefore been restated for the same adjustments identified above.

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5 NOTES TO THE BALANCE SHEET

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

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

Financial Assets	Non-current				Current				Total	
	Investments / Cash & Cash Equivalents		Debtors		Investments / Cash & Cash Equivalents		Debtors		Restated 31 March 2019	Restated 31 March 2020
	31 March 2019	31 March 2020	31 March 2019	31 March 2020	31 March 2019	31 March 2020	Restated 31 March 2019	31 March 2020		
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
Amortised cost-soft loan	0	0	1,321	1,254	0	0	185	209	1,506	1,463
Amortised cost-other	0	0	0	0	31,261	29,760	2,207	3,058	33,468	32,818
Total Financial Assets	0	0	1,321	1,254	31,261	29,760	2,392	3,267	34,974	34,281
Non-financial Assets	0	0	0	0	0	0	2,125	1,784	2,125	1,784
Total	0	0	1,321	1,254	31,261	29,760	4,517	5,051	37,099	36,065

5 NOTES TO THE BALANCE SHEET

Financial Liabilities	Non-current				Current				Total	
	Borrowings		Creditors		Borrowings		Creditors		Total	
	31		31		31		Restated		Restated	
	31 March 2019	March 2020	31 March 2019	March 2020	31 March 2019	March 2020	31 March 2019	March 2020	31 March 2019	March 2020
£000		£000		£000		£000		£000		
Amortised costs	(12,277)	(11,008)	0	0	(1,372)	(1,377)	(2,462)	(3,098)	(16,111)	(15,483)
Total Financial Liabilities	(12,277)	(11,008)	0	0	(1,372)	(1,377)	(2,462)	(3,098)	(16,111)	(15,483)
Non-financial Liabilities	0	0	0	0	0	0	(2,760)	(4,149)	(2,760)	(4,149)
Total	(12,277)	(11,008)	0	0	(1,372)	(1,377)	(5,222)	(7,247)	(18,871)	(19,632)

5 NOTES TO THE BALANCE SHEET

5.04.2 Material soft loans made by authority

The loan to Serco Ltd, as part of the waste agreement with Basingstoke and Dean Borough Council, for vehicles is deemed to be material soft loan. The loan is an interest free loan of £1.908m to Serco Ltd over eight years.

	2018/19 £000	2019/20 £000
Balance at start of the year:		
Opening balance	0	1,506
Nominal value of new loans granted in the year	1,742	166
Fair value adjustment on initial recognition	(180)	(11)
Loans repaid	(57)	(198)
Closing balance at the end of the year	<u>1,506</u>	<u>1,463</u>
Nominal value at 31 March	<u>1,651</u>	<u>1,585</u>

5 NOTES TO THE BALANCE SHEET

5.04.3 Income, Expense, Gains and Losses

Income Expense Gains & Losses	Restated	
	2018/19	2019/20
	Surplus or Deficit on Provision of Services	Surplus or Deficit on Provision of Services
	£000	£000
Interest expense:		
Financial liabilities measured at amortised cost	271	258
Total Expense	271	258
Interest revenue:		
Financial assets measured at amortised cost	(367)	(334)
Total Income	(367)	(334)
Net Profit / (Loss) for the year	(96)	(76)

5 NOTES TO THE BALANCE SHEET

5.04.4 Fair Value Measurement of Financial Assets

Fair value of an asset is the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date. The fair value measurements of the authority's financial assets are based on the following techniques:

- instruments with quoted market price-the market price
- other instruments with fixed and determinable payments-discounted cash flow analysis.

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

- Level 1 inputs- quoted prices (unadjusted) in active markets for identical assets that the authority can access at the measurement date
- Level 2 inputs- inputs other than quoted prices included within Level 1 that are observable for the assets, either directly or indirectly
- Level 3 inputs- unobservable inputs for the assets

5.04.5 Fair Value of Financial Assets and Liabilities Not Measured at Fair Value

All financial liabilities and financial assets held by the council are carried in the balance sheet as amortised cost.

- 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.
- The fair values of finance lease assets and liabilities have been calculated by discounting the contractual cash flows (excluding service charge elements) at the appropriate corporate bond yield, except where it is judged that this is not appropriate.

5 NOTES TO THE BALANCE SHEET

- 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.

Financial Assets & Liabilities	31 March 2019		31 March 2020	
	Restated	Restated	Carrying Amount	Fair Value
	Carrying Amount	Fair Value		
	£000	£000	£000	£000
Financial Assets				
Amortised cost - Investments	31,261	31,261	29,760	29,776
Amortised cost - Short term debtors	2,392	2,392	3,267	3,267
Long term debtors	1,321	1,321	1,254	1,254
Total Financial Assets	34,974	34,974	34,281	34,297
Financial Liabilities				
Amortised cost - Short term borrowing	(1,372)	(1,372)	(1,377)	(1,377)
Amortised cost - Short term creditors	(2,462)	(2,462)	(3,098)	(3,098)
Long term borrowing	(12,277)	(12,396)	(11,008)	(10,888)
Total Financial Liabilities	(16,111)	(16,230)	(15,483)	(15,363)

5 NOTES TO THE BALANCE SHEET

The fair value of borrowing is lower than carrying amount because council's portfolio of loans includes a number of fixed rate loans where the interest rate payable is lower than the prevailing rates of the balance sheet date. This shows notional future gain (based on economic conditions at 31 March 2020) arising from a commitment to pay interest below current market rate.

5.05 DEBTORS

Income is recognised in the accounts when it becomes due. Income that is due but has not been received at the end of the financial year is carried under the debtors heading in the balance sheet. This debtor balance is reviewed at each year end to assess the recoverability of the sums due and where it is doubtful that debts will be settled the balance of debtors is written down and an impairment charge made to the relevant account for the income that might not be collected. This assessment is carried out using the council's past experience and current knowledge of collection rates for different groups of debtors.

	31 March 2019	31 March 2020
	£000	£000
Short-term Debtors		
Central government bodies	344	187
Other local authorities	2,146	1,361
Other entities and individuals	2,027	3,503
	<u>4,517</u>	<u>5,051</u>
Long-term Debtors		
Other entities and individuals	1,321	1,254
	<u>1,321</u>	<u>1,254</u>

5.06 CASH AND CASH EQUIVALENTS

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are investments that mature in no more than three months or less from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

5 NOTES TO THE BALANCE SHEET

	31 March 2019	31 March 2020
	£000	£000
Bank current accounts	2,854	2,439
Short-term deposits	16,407	16,321
	<u>19,261</u>	<u>18,760</u>

5.07 ASSETS HELD FOR SALE

Assets held for sale are items of property, plant or equipment or a group of assets and liabilities whose carrying amount is to be recovered principally through a sale rather than its continued use by the authority. As at 31 March 2020 there is one asset classified as held for sale in category property, plant and equipment.

	31 March 2019	31 March 2020
	£000	£000
Balance outstanding at start of year	0	88
Assets newly classified as held for sale:		
Property, Plant & Equipment	88	0
Assets Sold	0	(88)
Balance outstanding at year-end	<u>88</u>	<u>(0)</u>

5 NOTES TO THE BALANCE SHEET

5.08 BORROWINGS

The total borrowings in the Balance Sheet carry the principal amount repayable. Interest is charged to the Comprehensive Income and Expenditure statement in accordance with the loan agreement. The short term borrowing includes two elements; one of which is a PWLB loan that is repayable at fixed rate within the next year and the other that is also repayable to Hampshire Council within the next year. The long term borrowing includes the loan to PWLB repayable up to more than 20 years and another which is repayable to Hampshire County Council in 5 years.

	31 March 2019	31 March 2020
	£000	£000
Short term Borrowing		
PWLB	371	377
HCC	1,000	1,000
Total	1,371	1,377
Long term Borrowing		
PWLB	8,906	8,577
HCC	3,371	2,431
Total	12,277	11,008

5 NOTES TO THE BALANCE SHEET

Total	<u>13,648</u>	<u>12,385</u>
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5.09 CREDITORS

Creditors are all amounts owed by the council as at 31 March 2020.

	31 March 2019 £000	31 March 2020 £000
Central government bodies	(1,235)	(2,337)
Other local authorities	(1,913)	(2,443)
Other entities and individuals	(2,074)	(2,467)
	<u>(5,222)</u>	<u>(7,247)</u>

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5.10 PROVISIONS

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

Provisions are charged as an expense to the appropriate service line in the Comprehensive Income and Expenditure Statement in the year that the council becomes aware of the obligation, and are measured at the best estimate at the balance sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties. When payments are eventually made, they are charged to the provision carried in the Balance Sheet. Estimated settlements are reviewed at the end of each financial year. Where it becomes less than probable that a

Hart District Council

5 NOTES TO THE BALANCE SHEET

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.

	Balance at 1 April 2019 £000	Additional provisions made in 2019/20 £000	Amounts used in 2019/20 £000	Unused amounts reversed in 2019/20 £000	Balance at 31 March 2020 £000
Business Rates Appeals Provision	(334)	532	0	(500)	(302)
	(334)	532	0	(500)	(302)

5.11 USABLE 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 in the Movement in Reserves Statement. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service in that year to score against the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement. The reserve is then appropriated back into the General Fund Balance in the Movement in Reserves Statement so that there is no net charge against council tax for the expenditure.

Certain reserves are kept to manage the accounting processes for non-current assets, financial instruments, retirement and employee benefits and do not represent usable resources for the council – these are capital reserves. The Capital Receipts Reserve and S106 reserves are examples of this.

5 NOTES TO THE BALANCE SHEET

General Fund - the primary fund of the council. It records all assets and liabilities of the council that are not assigned to a special purpose fund. It provides the resources necessary to sustain the day-to-day activities and thus pays for all administrative and operating expenses.

Earmarked Reserves - The council has a number of earmarked reserves and details of the main earmarked reserves can be found in the earmarked reserves below.

Capital Receipts Reserve - represents the capital receipts available to finance capital expenditure in future years, after setting aside any statutory amounts for the repayment of loans. The receipt arising from the disposal of an asset will be classed as a capital receipt, to be used to finance capital expenditure, if it is greater than £10,000. If the receipt falls below this threshold it will fall to the income and expenditure account, in accordance with the Local Government Act 2003.

Capital Grants Unapplied Reserve - where a capital grant or contribution has been recognised as income in the Comprehensive Income and Expenditure Statement, but the expenditure to be financed from that grant or contribution has not been incurred at the Balance Sheet date, the grant or contribution shall be transferred to the Capital Grants Unapplied Reserve. These balances are a capital resource available to finance expenditure.

Movements in the council's usable reserves are detailed in 4.0 Movement in Reserves Statement and Note 4.01 Adjustments between accounting basis and funding basis under regulation.

The balances of the individual reserves can be seen on the Balance Sheet.

5 NOTES TO THE BALANCE SHEET

5.11.1 TRANSFERS TO / FROM EARMARKED RESERVES

Earmarked reserves are created for specific purposes (legal/contractual requirement) that span financial years for which there is a definitive time frame. The note below sets out the amounts set aside from the General Fund in earmarked reserves to provide financing for future expenditure plans and the amounts posted back from earmarked reserves to meet General Fund expenditure in 2019/20.

	Balance at 1 April 2018	Transfers In 2018	Transfers Out 2018	Balance at 2018/19	Transfers In 2019	Transfers Out 2019	Balance at 2019/20
	£000	£000	£000	£000	£000	£000	£000
Hitches Lane SANG	6,083	41	(105)	6,019	1,039	(135)	6,922
Corporate Services	1,422	2,789	(1,619)	2,592	150	(576)	2,166
NNDR Smoothing Account	1,230	224	(330)	1,124	500	0	1,624
Open Spaces	572	30	(278)	324	49	(53)	320
Housing	811	846	(247)	1,410	639	(569)	1,480
Bramshot - SANG	467	491	0	958	1,173	(322)	1,809
Planning	217	0	0	217	0	0	217
Small SANG Sites	158	418	0	576	1	(20)	558
Community Reserve	66	0	(27)	39	0	(26)	13
Regulatory Services	0	50	0	50	57	0	107

5 NOTES TO THE BALANCE SHEET

Digital Transformation	0	0	0	0	500	0	500
Health Contribution	76	219	(32)	263	2	0	265
Other Earmarked Reserves	92	81	(63)	110	123	(38)	195
Total Earmarked Reserves	11,194	5,189	(2,701)	13,682	4,233	(1,739)	16,176

A brief description of those reserves with balances over £50,000 is provided below.

Hitches Lane, Dilly Lane and Bramshot SANG

Developer's contributions to provide Suitable Alternative Natural Green (SANG) spaces.

NNDR Smoothing Account

To be used to fund the NNDR deficit

Open Spaces

This reserve holds developers contributions towards the maintenance of Elvetham Heath.

Regulatory Services

This funding is required to support our democratic structure in delivering web streaming of regulatory services committee meetings.

Homelessness Housing Reserve

This is a fund built up to facilitate the provision of services to homeless people in the District.

Corporate, Community and Planning Reserve

These reserves are to fund a number of projects within these service areas.

Health Contribution

Health Contribution in respect of Queen Elizabeth Barracks (QEB).

Covid-19

Following the Covid-19 pandemic the importance of digital transformation, flexible and agile working has been recognised as a necessity for the Council.

5 NOTES TO THE BALANCE SHEET

5.12 UNUSABLE RESERVES

5.12.1 Revaluation Reserve

The Revaluation Reserve contains the gains made by the council arising from increases in the value of its Property, Plant and Equipment. 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 Revaluation Reserve contains revaluation gains recognised since 1 April 2007 only, the date of its formal implementation. Gains arising before that date have been consolidated into the Capital Adjustment Account.

	31 March 2019	31 March 2020
	£000	£000
Balance at 1 April	3,714	3,450
Upward revaluation of assets	1,396	4,430
Downward revaluation of assets and impairment losses not charged to the Surplus/Deficit on the Provision of Services	(1,529)	(876)
Surplus or deficit on revaluation of non-current assets not posted to the Surplus or Deficit on the Provision of Services	(133)	3,554
Difference between fair value depreciation and historical cost depreciation	(123)	(128)
Accumulated gains on assets sold or scrapped	(8)	0
Amount written off to the Capital Adjustment Account	(131)	(128)
Balance at 31 March	3,450	6,876

5 NOTES TO THE BALANCE SHEET

5.12.2 Financial Instruments Revaluation Reserve

The financial instruments revaluation reserve comprises the transferred unrealised fair value gain/loss from the available for sale reserve as at 31 March 2019 (11k), the investment was redeemed during 2018/19 and this reserve remains zero value as at 31 March 2020.

	31 March 2019	31 March 2020
	£000	£000
Balance at 1 April		
Transfer from Available for Sale Financial Instrument Reserve	11	0
Accumulated gains or losses on assets sold and maturing assets written out to the comprehensive income and expenditure statement as part of other investment income	(11)	0
Balance at 31 March	0	0

5.12.3 Capital Adjustment Account

The Capital Adjustment Account absorbs the timing differences arising from the different arrangements in 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.

5 NOTES TO THE BALANCE SHEET

	31 March 2019	31 March 2020
	£000	£000
Balance at 1 April	19,358	22,564
Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:		
Charges for depreciation and impairment of non-current assets	(1,552)	(1,640)
Revaluation gains or (losses) on Property, Plant and Equipment	(979)	(3,130)
Amortisation of intangible assets	(18)	(9)
Revenue expenditure funded from capital under statute	(1,649)	(1,376)
Amounts of non-current assets written off on disposal or sale as part of the gain/(loss) on disposal to the Comprehensive Income and Expenditure Statement	(12)	(88)
	(4,211)	(6,243)
Adjusting amounts written out of the Revaluation Reserve	131	128
Net written out amount of the cost of non-current assets consumed in the year	(4,080)	(6,115)
Capital financing applied in the year:		
Use of the Capital Receipts Reserve to finance new capital expenditure	5	329
Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	866	1,075
Application of grants to capital financing from the Capital Grants Unapplied Account	5,993	272
Statutory provision for the financing of capital investment charged against the General Fund balance	422	445
Capital expenditure charged against the General Fund balance	0	21
	7,286	2,142
Movements in the market value of Investment Properties debited or credited to the Comprehensive Income and Expenditure Statement	0	(3)
Balance at 31 March	22,564	18,588

5 NOTES TO THE BALANCE SHEET

5.12.4 Financial Instruments Adjustment Account

The Financial Instruments Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for income and expenses relating to certain financial instruments and for bearing losses or benefiting from gains per statutory provisions.

The council uses the account to manage fair value adjustments regarding the soft loan for Bramshot Farm and the soft loan for Serco. Balance Sheet represents adjustment for Bramshot Farm Loan received from Hampshire County Council and soft loan to Serco.

	31 March 2019 £000	31 March 2020 £000
Balance at 1 April	(269)	(23)
Amount by which finance costs charged to the comprehensive income and expenditure statement are different from finance costs chargeable in the year in accordance with statutory requirements	245	35
Balance at 31 March	<u>(23)</u>	<u>12</u>

5.12.5 Pensions Reserve

The Pensions Reserve absorbs the timing differences arising from the different arrangements in 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 and changing assumptions and investment returns on any resources set aside to meet the costs. However, statutory arrangements require benefits earned to be financed at the time the council makes the employer 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 between 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.

5 NOTES TO THE BALANCE SHEET

	31 March 2019	31 March 2020
	£000	£000
Balance at 1 April	(26,693)	(24,773)
Re-measurement of the net defined benefit (liability) / asset	2,970	(2,915)
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	(2,150)	(2,056)
Employer's pensions contributions and direct payments to pensioners payable in the year	1,100	1,213
Balance at 31 March	<u>(24,773)</u>	<u>(28,531)</u>

5 NOTES TO THE BALANCE SHEET

5.12.6 Collection Fund Adjustment Account

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

	Total	Council Tax	Non-domestic Rates	Total
	31 March 2019	31 March 2020	31 March 2020	31 March 2020
	£000	£000	£000	£000
Balance at 1 April	(680)	(58)	(109)	(167)
Amount by which council tax and non-domestic rates income credited to the Comprehensive Income and Expenditure Statement is different from council tax income and non-domestic rates income calculated for the year in accordance with statutory requirements	513	89	(177)	(88)
Balance at 31 March	(167)	31	(286)	(255)

5.12.7 Accumulated Absences Account

Benefits payable during employment are short-term employee benefits due to be settled wholly within 12 months of the year-end. They include such benefits as wages and salaries, paid annual leave and paid sick leave, bonuses and non-monetary benefits (e.g. cars) for current employees and are recognised as an expense for services in the year in which employees render services to the council. Where wages/salaries, overtime, and any other allowances have not physically been paid for within the period but relates to the period then the period will be charged by the means of an accrual.

However these transactions must not have a financial impact upon the General Fund. To mitigate this accrual a corresponding entry will be made to the Accumulated Absences Account.

5 NOTES TO THE BALANCE SHEET

	31 March 2019	31 March 2020
	£000	£000
Balance at 1 April	(43)	(48)
Settlement or cancellation of accrual made at the end of the preceding year	43	48
Amounts accrued at the end of the current year	(48)	(68)
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	(5)	(20)
Balance at 31 March	(48)	(68)

5.13 CAPITAL EXPENDITURE AND CAPITAL FINANCING

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

Revenue Expenditure Funded by Capital under Statute - These amounts represent expenditure on capital grants and other payments which do not result in an asset belonging to the council. Under the government's capital controls this expenditure would be treated as revenue expenditure. These amounts should be written off over a period consistent with the consumption of the economic benefits controlled by the council. As the council does not control the economic benefits arising from this particular expenditure, 100% of the expenditure is written off to revenue in the year it is incurred, leaving no balance at the end of the year.

The expenditure (net of grants received) is written off to the Capital Adjustment Account via the Movement in Reserves Statement.

5 NOTES TO THE BALANCE SHEET

	2018/19	2019/20
	£000	£000
Opening Capital Financing Requirement	21,165	16,263
Capital Investment		
Property, Plant and Equipment	734	1,624
Investment Properties	0	6,283
Revenue Expenditure Funded from Capital under Statute	1,649	1,376
Sources of Finance		
Capital receipts	(5)	(329)
Government grants and other contributions	(6,859)	(1,346)
Sums set aside from revenue		
Direct revenue contributions	0	(21)
Minimum revenue provision	(422)	(445)
Closing Capital Financing Requirement	<u>16,263</u>	<u>23,405</u>
Explanation of movements in year		
Increase/(decrease) in underlying need to borrow (unsupported by Government financial assistance)	(4,902)	7,142
Increase/(decrease) in Capital Financing Requirement	<u>(4,902)</u>	<u>7,142</u>

5 NOTES TO THE BALANCE SHEET

5.14 FINANCE LEASES

Leases are classified as finance leases where the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the property, plant or equipment from the lessor to the lessee. All other leases are classified as operating leases. Where a lease covers both land and buildings, the land and buildings elements are considered separately for classification.

Embedded leases within contracts - There is a requirement for the council to identify any instances where there are contracts in place to provide a service to the council and consider whether there are any embedded leases within these contracts. Where such instances are identified the council is required to identify the element of the contractual payments made in respect of these assets and to account for these as a finance lease as above.

5.14.1 Council as Lessee

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

Lease payments are apportioned between:

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

The council doesn't have any of these assets.

5.14.2 Council as Lessor

Finance leases – Where the council grants a finance lease over property, plant or equipment, the relevant asset is written out of the Balance Sheet as a disposal. At the commencement of the lease, the carrying amount of the asset in the Balance Sheet is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. A gain, representing the council's net investment in the lease, is credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal, matched by a lease asset in the Balance Sheet.

5 NOTES TO THE BALANCE SHEET

Lease rentals receivable are apportioned between:

A charge for the acquisition of the interest in the property, plant or equipment – applied to write down the lease debtor, and Finance income Credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

The gain credited to the Comprehensive Income and Expenditure Statement on disposal is not permitted by statute to increase the General Fund Balance and is required to be treated as a capital receipt.

The council received no material rental income from properties under finance leases.

5.15 DEFINED BENEFIT PENSION SCHEME

5.15.1 Participation in pension schemes

Employees of the council are members of the Local Government Pension Scheme, administered by Hampshire County Council (HCC). The Scheme provides defined benefits to pension scheme members (retirement lump sums and pensions) earned as employees worked for the council. The Local Government Pension Scheme is accounted for as a defined benefits scheme:

- The liabilities of the HCC pension scheme attributable to the council are included in the Balance Sheet on an actuarial basis using the projected unit method i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employees turnover rates etc and projections of earnings for current employees.
- Liabilities are discounted to their value at current prices, using a discount rate based on the indicative rate of return on high quality corporate bond (gross redemption yield on the iboxx Sterling Corporates Index, AA over 15 years).
- A significant proportion of the assets of the Scheme are invested in equities. The assets of the HCC pension fund attributable to the council are included in the balance sheet at their fair value:
 - Quoted securities-current bid price
 - Unquoted securities-professional estimate
 - Unitised securities-current bid price
 - Property-market value

5 NOTES TO THE BALANCE SHEET

- The change in the net pensions liability is analysed into seven components:
 - Service cost comprising:
 - current service cost - the increase in liabilities as a result of years of service earned for the 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 on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs;
 - Net interest on the net defined benefit liability/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 benefit liability/asset during the period as a result of contribution and benefit payments.
 - Re-measurements comprising:
 - the return on plan assets – excluding amounts included in net interest on the net defined benefit liability - charged to the Pension Reserve as Other Comprehensive Income and Expenditure;
 - actuarial gains and losses - changes in the net pension's 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;
 - Contributions paid to the HCC pension fund - cash paid as the 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 in accordance with the relevant standards. This means that in the Movement in Reserve Statement there are appropriations to or from the Pensions Reserve to remove the notional debits and credits for retirement benefits and replace them with 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 Pensions Reserve thereby measures the beneficial impact to the General Fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits are earned by employees.

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

5 NOTES TO THE BALANCE SHEET

As part of the terms and conditions of employment, the council offers retirement benefits. Although these benefits will not actually be payable until employees retire, the council has a commitment to make the payments that need to be disclosed at the time that employees earn their future entitlement.

The council participates in the Local Government Pension Scheme, administered locally by Hampshire County Council. This is a funded defined benefit final payment 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. In addition there is an un-funded defined benefit arrangement under which liabilities are recognised when awards are made. 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 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 principal risks to the scheme are the longevity assumptions, statutory or structural changes to the scheme, adverse fluctuations in inflation, bond yields and the performance of the equity investment held by the scheme. These risks are mitigated to a certain extent by the statutory requirements to charge to the General Fund the amounts required by statute as described in the accounting policies note.

Discretionary post-retirement benefits on early retirement are unfunded defined benefit arrangements under which liabilities are recognised when awards are made. There are no plan assets built up to meet these pension liabilities.

5.15.2 Transactions Relating to Post-employment Benefits

The council recognises the cost of retirement benefits in the reported cost of services when they are earned by employees, rather than when the benefits are eventually paid as pensions whereas, the charge the council is required to make against council tax is based on the cash payable in the year, so the real cost of retirement benefits is reversed out of the General Fund via the Movement in Reserves Statement. The following transactions have been made in the Comprehensive Income and Expenditure Statement and the General Fund Balance via the Movement in Reserves Statement during the year:

5 NOTES TO THE BALANCE SHEET

	Local Government Pension Scheme		Discretionary Benefits Arrangements	
	2018/19	2019/20	2018/19	2019/20
	£000	£000	£000	£000
Comprehensive Income and Expenditure Statement				
Operating cost comprising:				
Current Service Cost	1,010	1,476	0	0
Past Service Cost	470	0	0	0
Net interest expense	620	534	50	46
Total Post-employment Benefits Charged to the (Surplus) or Deficit on the Provision of Services	2,100	2,010	50	46
Remeasurement of the net defined benefit liability comprising:				
Return on plan assets (excluding the amount included in the net interest expense)	(3,590)	2,485	0	0
Actuarial (gains) and losses arising on changes in demographic assumptions	(3,190)	(1,925)	(90)	(35)
Actuarial (gains) and losses arising on changes in financial assumptions	3,680	(1,626)	50	(17)
Actuarial (gains) and losses due to liability experience	160	3,948	10	85
Total Post-employment Benefit (Gains) and Losses Charged to the Comprehensive Income and Expenditure Statement	(840)	4,892	20	79

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5 NOTES TO THE BALANCE SHEET

	Local Government Pension Scheme		Discretionary Benefits Arrangements	
	2018/19 £000	2019/20 £000	2018/19 £000	2019/20 £000
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	(2,100)	(2,010)	(50)	(46)
Actual amount charged against the General Fund Balance for pensions in the year:				
Employers' contributions to the scheme	940	1,055	0	0
Retirement benefits payable to pensioners	0	0	160	158

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5.15.3 Pension Assets and Liabilities Recognised in the Balance Sheet

The amount included in the Balance Sheet arising from the council's obligation in respect of its defined benefit plans is:

	<u>Local Government Pension Scheme</u>		<u>Discretionary Benefits Arrangements</u>	
	<u>2018/19</u> <u>£000</u>	<u>2019/20</u> <u>£000</u>	<u>2018/19</u> <u>£000</u>	<u>2019/20</u> <u>£000</u>
<u>Present value of the defined benefit obligation</u>	<u>77,500</u>	<u>78,640</u>	<u>2,085</u>	<u>2,002</u>
<u>Fair value of plan assets</u>	<u>(54,730)</u>	<u>(52,032)</u>	<u>0</u>	<u>0</u>
<u>Net liability arising from defined benefit obligation</u>	<u>22,770</u>	<u>26,608</u>	<u>2,085</u>	<u>2,002</u>
	Restated	Restated		

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5 NOTES TO THE BALANCE SHEET

	Local Government Pension Scheme		Discretionary Benefits Arrangements	
	2018/19	2019/20	2018/19	2019/20
	£000	£000	£000	£000
Present value of the defined benefit obligation	77,500	78,640	2,082	2,002
Fair value of plan assets	(54,728)	(52,032)	0	0
Net liability arising from defined benefit obligation	22,772	26,608	2,082	2,002

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5.15.4 Reconciliation of the Movements in the Fair Value of Scheme (Plan) Assets

	Restated Local Government Pension Scheme		Discretionary Benefits Arrangements	
	2018/19	2019/20	2018/19	2019/20
	£000	£000	£000	£000
Opening fair value of scheme assets	51,379	54,728	0	0
Interest income	1,320	1,296	0	0
Remeasurement gain/(loss):				
Return on plan assets, excluding the amount in the net interest expense	3,590	(2,485)	0	0
Contributions from employer	939	1,056	237	159
Contributions from employees into the scheme	270	279	0	0
Benefits paid	(2,770)	(2,842)	(237)	(159)

5 NOTES TO THE BALANCE SHEET

Closing fair value of scheme assets	54,728	52,032	0	0
-	-	-	-	-

	<u>Local Government Pension Scheme</u>		<u>Discretionary Benefits Arrangements</u>	
	2018/19	2019/20	2018/19	2019/20
	£000	£000	£000	£000
- <u>Opening fair value of scheme assets</u>	51,383	54,733	0	0
- <u>Opening fair value of scheme assets adjustment</u>	0	(4)	0	0
- <u>Interest income</u>	1,320	1,296	0	0
- <u>Remeasurement gain/(loss):</u>				
- <u>Return on plan assets, excluding the amount in the net interest expense</u>	3,590	(2,485)	0	0
- <u>Contributions from employer</u>	940	1,055	237	159
- <u>Contributions from employees into the scheme</u>	270	279	0	0
- <u>Benefits paid</u>	(2,770)	(2,842)	(237)	(159)
- Closing fair value of scheme assets	54,733	52,032	0	0

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5 NOTES TO THE BALANCE SHEET

5.15.5 Reconciliation of Present Value of the Scheme Liabilities (Defined Benefit Obligation)

	Local Government Pension Scheme		Discretionary Benefits Arrangements	
	2018/19	2019/20	2018/19	2019/20
	£000	£000	£000	£000
Opening balance at 1 April	75,930	77,500	2,299	2,082
Current service cost	1,010	1,476	0	0
Interest cost	1,940	1,830	50	46
Contributions from scheme participants	270	279	0	0
Actuarial (gains) and losses arising on changes in demographic assumptions	(3,190)	(1,925)	(90)	(35)
Actuarial (gains) and losses arising on changes in financial assumptions	3,680	(1,626)	50	(17)
Actuarial (gains) and losses due to liability experience	160	3,948	10	85
Past Service Cost (including curtailments)	470	0	0	0
Benefits paid	(2,770)	(2,842)	(237)	(159)
Closing balance at 31 March	77,500	78,640	2,082	2,002

	Local Government Pension Scheme		Discretionary Benefits Arrangements	
	2018/19	2019/20	2018/19	2019/20
	£000	£000	£000	£000

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5 NOTES TO THE BALANCE SHEET

- <u>Opening balance at 1 April</u>	75,930	77,500	2,302	2,085	
- <u>Opening balance at 1 April adjustment</u>	0	0	0	(3)	
- <u>Current service cost</u>	1,010	1,476	0	0	
- <u>Interest cost</u>	1,940	1,830	50	46	
- <u>Contributions from scheme participants</u>	270	279	0	0	
- <u>Actuarial (gains) and losses arising on changes in demographic assumptions</u>	(3,190)	(1,925)	(90)	(35)	
- <u>Actuarial (gains) and losses arising on changes in financial assumptions</u>	3,680	(1,626)	50	(17)	
- <u>Actuarial (gains) and losses due to liability experience</u>	160	3,948	10	85	
- <u>Past Service Cost (including curtailments)</u>	470	0	0	0	
- <u>Benefits paid</u>	(2,770)	(2,842)	(237)	(159)	
- <u>Closing balance at 31 March</u>	77,500	78,640	2,085	2,002	

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5.15.6 Local Government Pension Scheme Assets

The fair value of the scheme assets are:

	2018/19		2019/20		2019/20		2019/20
	<u>Total</u>		<u>Quoted</u>		<u>Unquoted</u>		<u>Total</u>
	<u>£000</u>	%	<u>£000</u>	%	<u>£000</u>	%	<u>£000</u>
- <u>Cash and cash equivalents</u>	1,259	2.3	1,769	3.4	0	0.0	1,769

5 NOTES TO THE BALANCE SHEET

- Equities	33,059	60.4	23,466	45.1	3,902	7.5	27,369
- Bonds:							
- Corporate	2,846	5.2	0	0.0	0	0.0	0
- Government	12,424	22.7	11,031	21.2	0	0.0	11,031
- Property	4,160	7.6	416	0.8	3,226	6.2	3,642
- Other*	985	1.8	7,284	14.0	937	1.8	8,221
- Total	54,733	100	43,967	84.5	8,065	15.5	52,032

	Restated		2018/19		2019/20		2019/20	
	Total		Quoted		Unquoted		Total	
	£000	%	£000	%	£000	%	£000	
- Cash and cash equivalents	1,423	2.6	1,769	3.4	0	0.0	1,769	
- Equities	34,260	62.6	23,466	45.1	3,902	7.5	27,369	
- Bonds:								
- Corporate	547	1.0	0	0.0	0	0.0	0	
- Government	12,971	23.7	11,031	21.2	0	0.0	11,031	
- Property	3,831	7.0	416	0.8	3,226	6.2	3,642	
- Other*	1,697	3.1	7,284	14.0	937	1.8	8,221	
- Total	54,728	100	43,967	84.5	8,065	15.5	52,032	

*Other holdings cover hedge funds, currency holdings, asset allocation futures and other financial instruments. The return is in line with that of equities.

5.15.7 Basis for Estimating Assets and Liabilities

Hart District Council

5 NOTES TO THE BALANCE SHEET

Results under IAS 19 can change dramatically depending on market conditions which when taken in conjunction with discount rate volatility will lead to volatility in the funded status of the pension plan and thus to volatility in the net pension liability on the council's Balance Sheet, Other Comprehensive Income and the IAS 19 pension expense in Cost of Services. The council has disclosed information about the sensitivity of the defined benefit to changes in key assumptions in accordance with the requirements of the revised IAS 19.

The estimation of the defined benefit obligation is sensitive to the actuarial assumptions. The sensitivity analyses below have been determined based on reasonably possible changes of the assumptions occurring at the end of the reporting period and assumes for each change that the assumption analysed changes while all the other assumption remained constant. The assumptions in longevity, by way of an example, assume that life expectancy increases or decreases for men and women when in practice this is unlikely to occur and also changes in some of the assumptions may be interrelated. The estimations in the sensitivity analysis have followed the accounting policies for the scheme i.e. on an actuarial basis using the projected unit credit method, an estimate of the pensions that will be payable in future years dependant on assumptions about mortality rates, salary levels etc. The methods and types of assumptions used in preparing the sensitivity analysis below did not change from those used in the previous period.

The Local Government Pension Scheme and discretionary benefits liabilities have been estimated by Aon Hewitt Limited, an independent firm of actuaries, with estimates for the County Council Fund being based on the latest full valuation of the scheme as at 31 March 2019.

Local Government Pension Scheme		
	2018/19	2019/20
Mortality assumptions:		
Longevity at 65 for current pensioners:		
- men	23.3	23.0
- women	26.1	25.5
Longevity at 65 for future pensioners:		
- men	24.9	24.7
- women	27.8	27.2
RPI increases	3.3%	0.0%

5 NOTES TO THE BALANCE SHEET

CPI increases	2.2%	2.0%
Rate of increase in salaries	3.7%	3.0%
Rate of increase in pensions	2.2%	2.0%
Pension accounts revaluation rate	2.2%	2.0%
Rate for discounting scheme liabilities	2.4%	2.3%

The impact on the Defined Benefit Obligation in the scheme is:

	Increase in Assumption £000	Decrease in Assumption £000
Assumption adjustment:		
Discount rate (scheme liabilities) - increase/decrease by 0.1%	(1,433)	1,460
Salaries - increase/decrease by 0.1%	87	(86)
Pensions - increase/decrease by 0.1%	1,398	(1,370)
Longevity - increase/decrease by 1 year*	2,479	(2,459)

*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

5.15.8 Impact on the council's cash flows

The objective of the Local Government Pension Scheme is to keep employers' contributions at a rate that is as constant as possible. Hampshire County Council has agreed a strategy with the actuary to achieve a level of 100% over the next few years and the next triennial valuation is due to be completed on 31 March 2022. Funding levels are monitored annually.

5 NOTES TO THE BALANCE SHEET

Benefits accrued up to 31 March 2014 were based on final salary and length of service. Changes to the structure of the LGPS from 1 April 2014 result in benefits accruing from that date being based on a career average salary but with various protections for those members in the scheme prior to the 1 April 2014.

It is anticipated to pay £1.440 million in expected contributions to the scheme in 2020/21.

5.16 EVENTS AFTER THE BALANCE SHEET DATE

The unaudited statement of accounts was authorised for issue by the S151 Officer on 26 August 2020. 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 2020, the figures in the financial statements and notes have been adjusted in all material respects to reflect the impact of this information.

The financial statements and notes have not been adjusted for the following events, which took place after 31 March 2020, as they provide information that is relevant to an understanding of the authority's financial position but do not relate to conditions at that date:

- The Covid-19 pandemic has had a significant impact on the Council's income, council tax and business rates for 2020/21, whilst the impact started in advance of the balance sheet date the impact is still very much ongoing to support local residents and businesses recovery. The cash flow position remains adequate as the Council hasn't had to specifically borrow to cover any cash deficit arising as a result of Covid-19.

5.17 GRANTS RECEIVED IN ADVANCE

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

5 NOTES TO THE BALANCE SHEET

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

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

	31 March 2019	31 March 2020
	£000	£000
Grampian Conditions	4,819	5,107
	<u>4,819</u>	<u>5,107</u>

These Grampian conditions prohibit development to begin until a specific action has been completed. If the development was cancelled these funds would be payable back to the developer.

6 NOTES TO THE CASH FLOW STATEMENT

6.01 OPERATING ACTIVITIES

The cash flows for operating activities include the following items:

	2018/19	2019/20
	£000	£000
Interest received	315	401
Interest paid	(270)	(260)

The surplus or deficit on the provision of services has been adjusted for the following non-cash movements:

	2018/19	2019/20
	£000	£000
Depreciation and Amortisation	2,567	1,651
Impairment and downward valuations	(17)	3,130
Net book value of disposed assets	12	88
(Increase) / Decrease in Debtors	(1,308)	(367)
Increase / (Decrease) in Creditors	(962)	1,150
Increase / (Decrease) in Provisions	(143)	(31)
Movement in Pension Liability	973	842
Changes in fair value of investment properties	0	3
Movement in Fair Values of Financial instruments	(235)	36
Other non-cash items charged to the net surplus or deficit on the provision of services	2,246	286
	3,133	6,788

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6 NOTES TO THE CASH FLOW STATEMENT

The surplus or deficit on the provision of services has been adjusted for the following items that are investing and financing activities:

	2018/19	2019/20
	£000	£000
Proceeds from the sale of property, plant and equipment, investment property and intangible assets	(110)	(178)
Any other items for which the cash effects are investing or financing cash flows	(7,210)	(3,371)
	(7,320)	(3,549)

6.02 INVESTING ACTIVITIES

	2018/19	2019/20
	£000	£000
Purchase of property, plant & equipment, investment property and intangible assets	(304)	(7,884)
Purchases of short & long term investments	(1,000)	0
Other payments for investing activities	0	(5)
Proceeds from sale of property, plant & equipment, investment property and intangible assets	110	288
Proceeds from short & long term investments	0	1,000
Other receipts for investing activities	7,210	3,371
	6,016	(3,230)

6 NOTES TO THE CASH FLOW STATEMENT

6.03 FINANCING ACTIVITIES

	2018/19	2019/20
	£000	£000
Other receipts from financing activities		
- Council Tax Preceptor Cash	0	743
- NNDR Cash Receipts	952	0
Repayment of short & long term borrowing	(713)	(1,321)
Other payments from financing activities		
- Council Tax Preceptor Cash	(783)	0
- NNDR Cash Payments	0	(77)
	<u>(544)</u>	<u>(655)</u>

6.04 RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

2019/2020	1 April 2019	Financing Cash Flows	Acquisition	Other Non- Cash Changes	31 March 2020
£000	£000	£000	£000	£000	£000
Long term borrowing	12,277	0	0	(1,269)	11,008
Short-term borrowing	1,372	(1,321)	0	1,326	1,377
Other (payments)/receipts for financing activities	169	(77)	743	0	835
	<u>13,817</u>	<u>(1,398)</u>	<u>743</u>	<u>57</u>	<u>13,220</u>

6 NOTES TO THE CASH FLOW STATEMENT

2018/19	1 April 2018	Financing Cash Flows	Acquisition	Other Non-Cash Changes	31 March 2019
	£000	£000	£000	£000	£000
Long term borrowing	13,532	0	0	(1,255)	12,277
Short-term borrowing	1,064	(713)	0	1,021	1,372
Other (payments)/receipts for financing activities	0	(783)	952	0	169
	<u>14,596</u>	<u>(1,496)</u>	<u>952</u>	<u>(235)</u>	<u>13,817</u>

7 ADDITIONAL NOTES TO THE FINANCIAL STATEMENTS

7.01 ACCOUNTING STANDARDS THAT HAVE BEEN ISSUED BUT HAVE NOT YET BEEN ADOPTED

The CIPFA Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 (the Code) requires changes in accounting policy to be applied retrospectively unless alternative transitional arrangements are specified in the Code. The Code requires an authority to disclose information relating to the impact of an accounting change that will be required by a new standard that has been issued but not yet adopted by the Code for the relevant financial year.

IFRS 16 Leases; will require local authorities that are lessees to recognise most leases on their balance sheets as right-of-use assets with corresponding lease liabilities (there is recognition for low-value and short-term leases). CIPFA/LASAAC have deferred implementation of IFRS 16 for local government to 1 April 2021. The impact of IFRS 16 is not known or reasonably estimable as at 31 March 2020.

IAS 28 Investments in Associates and Joint Ventures: Long term interests in associates with joint ventures. Prescribes the accounting for investments in associates and sets out the requirements for the application of the equity method when accounting for investments in associates and joint ventures. ... Distributions received from the investee reduce the carrying value of the investment.

Annual Improvements to IFRS Standards 2015-17 Cycle.

IAS 19 Employee Benefits: Plan amendments, curtailments or settlement. Prescribes the accounting treatment of short-term employee benefits, post-employment benefits, other long-term employee benefits and termination benefits. Short term benefits owing to an employee at the period end should be accrued.

IAS 40 Investment Property: Transfers of Investment Property; provides further explanation of the instances in which a property can be reclassified as investment property. This will have no impact on the Council as it already complies.

Amendments to IFRS 9 Financial Instruments: Prepayment Features with Negative Compensation; amends IFRS 9 to make clear that amortised cost should be used where prepayments are substantially lower than unpaid principal and interest. The Council has no loans to which this will apply.

IFRIC 22 Foreign Currency Transactions and Advance Consideration: clarifies the treatment of payments in a foreign currency made in advance of obtaining or delivering services or goods. The Council does not have any material transactions within the scope of the amendment.

IFRIC 23 Uncertainty over Income Tax Treatments, and amendments to IFRS 9 Financial Instruments: Prepayment Features with Negative compensation.

7 ADDITIONAL NOTES TO THE FINANCIAL STATEMENTS

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

7.02 CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

In applying the accounting policies set out within the notes in the Statement of Accounts the council has had to make certain judgements about complex transactions or those involving uncertainty about future events.

The critical judgements made in the Statement of Accounts are:

Future Funding

The 2016 funding settlement increased certainty with the offer of a four-year settlement to any council that wished to take it up, alongside indicative allocations for each year of the Spending Review period. Due to Covid-19, the planned implementation of the Fair Funding Review and Business Rates Retention have been pushed back by at least a year, which should give some stability in funding for a further year. The next Spending Review will be undertaken by the Chancellor of the Exchequer in autumn 2020 and the effect of this on local government funding is yet to be determined. The intention of all these future reforms is to put councils in control of their own finances, allowing them to respond efficiently to local needs.

Leases

The council classifies the leases it holds, both as a lessee and lessor, as either operating or finance leases. Under International Financial Reporting Standards the council is deemed to control assets that fall within contractual and other arrangements which involve the provision of a service using specific assets and which therefore are considered to contain a lease. The appropriate accounting policy for each lease has been applied to these arrangements (where they have been identified) and as a result additional assets are recognised as Property, Plant and Equipment in the council's Balance Sheet.

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

The Statement of Accounts contains estimated figures that are based on assumptions made by the authority about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates. The items in the council's Balance Sheet at 31 March 2020 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

7 ADDITIONAL NOTES TO THE FINANCIAL STATEMENTS

Item	Uncertainties	Effect if actual results differ from assumptions
Property, Plant and Equipment	<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 may be able to sustain its current spending on repairs and maintenance, bringing into doubt the useful lives assigned to assets. However the council's assets are subject to a periodic revaluation and an annual impairment review and any changes in valuation are accounted for in the year that they occurred.</p> <p>The outbreak of Covid-19 has impacted global financial markets and as at the valuation date, less weight can be attached to previous market evidence to inform opinions of value. There is an unprecedented set of circumstances on which to base a judgement.</p> <p>Valuations are therefore reported on the basis of 'material valuation uncertainty' as per the RICS Red Book Global. Consequently, less certainty and a higher degree of caution should be attached to the valuation. At the current time, it is not possible to accurately predict the longevity and severity of the impact of Covid-19 on the economy. Therefore, values have been based on the situation prior to Covid-19, on the assumption that values will be restored when the real estate market becomes more fluid.</p>	<p>If the useful life of assets is reduced, depreciation increases and the carrying amount of the assets falls.</p> <p>It is estimated that the annual depreciation charge for buildings would increase by £92,000 for every year that useful lives had to be reduced.</p> <p>If the actual valuation differs from the assumptions made then these will be adjusted when the asset is revalued.</p>
Fair Value Measurement of Investment Properties	<p>Investment properties are revalued every year and, therefore, takes into account the current market conditions.</p> <p>At the current time, it is not possible to accurately predict the longevity and severity of the impact of Covid-19 on the economy. Therefore, values have been based on the situation prior to Covid-19, on the assumption that values will be restored when the real estate market becomes more fluid.</p>	<p>A 1% movement in the valuation of investment properties would equate to a movement of £63,501</p>

7 ADDITIONAL NOTES TO THE FINANCIAL STATEMENTS

Item	Uncertainties	Effect if actual results differ from assumptions
Pension 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>When the LGPS benefit structure was reformed in 2014, transitional protections were applied to certain older members close to normal retirement age. The benefits accrued from 1 April 2014 by these members are subject to an 'underpin' which means that they cannot be lower than what they would have received under the previous benefit structure. The underpin ensures that these members do not lose out from the introduction of the new scheme, by effectively giving them the better of the benefits from the old and new schemes.</p>	<p>The effects on the net pension liability for funded LGPS benefits of changes in individual assumptions can be measured. For instance, a 0.1% increase in the discount rate assumptions would result in a decrease in the pension liability of £1,433,000</p> <p>However, the assumptions interact in complex ways. During 2019/20, the council's actuaries advised that the net pension liability had increased by £4,033,000 as a result of estimates being corrected as a result of experience and decreased by £1,118,000 attributable to the updating of assumptions.</p>
Provisions	<p>The council has made provision in relation to National Non-Domestic Rate Appeals. This provision is based on an estimation of any future liability and the likelihood that these costs will be incurred.</p>	<p>If the estimates used in the calculation of the provision prove to be inaccurate then there will be further income or expenditure incurred by the General Fund via the Collection Fund.</p>
Arrears	<p>At 31 March 2020, the council had a balance of sundry (trade) debtors of £2,563,593. A review of significant balances suggested that an impairment of doubtful debts of £194,418 (8%) was appropriate. It is not certain that this impairment allowance would be sufficient as the council cannot assess with certainty which debts will be collected or not. The economic impact of the Covid-19 pandemic has made the estimation of debt impairment more difficult as there is more uncertainty about the economic viability of debtors and hence their ability to settle their debts.</p>	<p>If collection rates were to deteriorate, a doubling of the amount of the impairment of doubtful debts would require an additional £194,418 to set aside as an allowance from revenue. The council has earmarked £500,000 to help tackle the impact of Covid-19, in part it would be used to offset any impairments above which have already been allowed for.</p>

7 ADDITIONAL NOTES TO THE FINANCIAL STATEMENTS

7.04 RELATED PARTY TRANSACTIONS

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

Central government has effective control over the general operations of the council. It is responsible for providing the statutory framework, within which the council operates, provides the majority of its funding in the form of grants and prescribes the terms of many of the transactions that the council has with other parties (e.g. housing benefits). Details of transactions with government departments are set out in the previous note, Grant Income.

Elected Members of the council have direct control over the council's financial and operating policies. Members are required to observe the Code of Conduct for Councillors, register financial interests in the council's register (maintained under section 81(1) of the Local Government Act 2000) and register the receipt of any gifts/hospitality. There were no material receipts of any gift or hospitality to disclose for 2019/20.

As of the date of the Responsible Finance Officer signing the accounts, there were 4 returns from elected members outstanding. From those who had returned their declaration, there were no material related parties to disclose.

Officers are required to observe the Code of Conduct for Officers and register the receipt of any gifts/hospitality. The council had no material related party transactions with officers during 2019/20.

Related party transactions with the precepting bodies and the pension fund are disclosed in the Defined Benefit Pension Scheme note within these accounts.

The council had no significant interest in companies.

Amounts due to or from those parties able to control or influence the council or to be controlled/ influenced by the council are as follows:

7 ADDITIONAL NOTES TO THE FINANCIAL STATEMENTS

This table has been restated to include collection fund figures on the council's Balance Sheet and exclude borrowing from Central Government and Hampshire County Council.

	Restated 31 March 2019 £000	31 March 2020 £000
Amounts due to Central Government	(1,912)	(2,337)
Amounts due to Hampshire County Council	(4,505)	(3,538)
Amounts due from Central Government	344	187
Amounts due from Hampshire County Council	668	244

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7.05 CONTINGENT ASSETS AND LIABILITIES

Contingent assets and liabilities are not included within the Comprehensive Income and Expenditure Statement or Balance Sheet, but are disclosed by way of a note to the accounts where a receipt or some other economic benefit is probable (contingent asset), or where there is a possible obligation that may require payment or other transfer of economic funds (contingent liability).

The council has no contingent assets and liabilities to report.

7.06 NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS

7.06.1 Disclosure and Nature and Extent of Risk arising from Financial Instruments

The council's activities expose it to a variety of financial risks, the key risks are:

- Credit risk – the possibility that other parties might fail to pay amounts due to the council.
- Liquidity risk – the possibility that the council might not have funds available to meet its commitments to make payments.

7 ADDITIONAL NOTES TO THE FINANCIAL STATEMENTS

- Market risk – the possibility the financial loss might arise for the council as a result of changes in such measures as interest rates movements. The council's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects

7.06.2 Credit risk

Credit risk arises from deposits with banks and financial institutions, as well as credit exposures to the Council's customers.

The risk is minimised through the Annual Investment Strategy, which requires that deposits are not made with financial institutions unless they meet identified minimum credit criteria, as laid down by Fitch, Moody's and Standard & Poor's Rating Services. The Annual Investment Strategy also imposes a maximum sum and time to be invested with a financial institution located within each category

The Council's Treasury Management Advisors Link Asset Services, give a credit rating based on the latest market information.

This Council applies the creditworthiness service provided by Link Asset Services. This service employs a sophisticated modelling approach utilising credit ratings from the three main credit rating agencies - Fitch, Moody's and Standard and Poor's. The credit ratings of counterparties are supplemented with the following overlays:

- credit watches and credit outlooks from credit rating agencies;
- CDS spreads to give early warning of likely changes in credit ratings;
- Sovereign ratings to select counterparties from only the most creditworthy countries.

This modelling approach combines credit ratings, credit Watches and credit Outlooks in a weighted scoring system which is then combined with an overlay of CDS spreads for which the end product is a series of colour coded bands which indicate the relative creditworthiness of counterparties. These colour codes are used by the Council to determine the suggested duration for investments. The Council will therefore use counterparties within the following durational bands:

- Yellow 5 years *
- Dark pink 5 years for Enhanced Money Market Funds (EMMFs) with a credit score of 1.25
- Light pink 5 years for Enhanced Money Market Funds (EMMFs) with a credit score of 1.5
- Purple 2 years
- Blue 1 year (only applies to nationalised or semi nationalised UK Banks)

7 ADDITIONAL NOTES TO THE FINANCIAL STATEMENTS

- Orange 1 year
- Red 6 months
- Green 100 days
- No colour not to be used
- Money Market Funds with AAA rating
- UK Government Gilts with AA rating
- A maximum of £5m to be invested with any single institution.

The Council's maximum exposure to credit risk in relation to its investments in banks and building societies of £5m 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 2020 that this was likely to crystallise.

The table below summarises the nominal value of the Council's investment portfolio at 31 March 2020 with each level of counterparty. All investments were made in line with the Council's approved credit rating criteria at the time of placing the investment and the Council does not expect any losses from non-performance by any of its counterparties in relation to deposits and bonds.

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Credit Risk – Investments and Cash & Cash Equivalents

	Amount at 31 March 2020 £000
AAA rated counterparties	14,000
A+ rated counterparties	15,760
	<u>29,760</u>

7 ADDITIONAL NOTES TO THE FINANCIAL STATEMENTS

The Council does not generally allow credit for customers. As per the Code of Practice requirements, the disclosure below includes details only of debtors that have arisen as a result of trading activities. Balances and transactions arising from statutory functions (i.e. Council tax and NNDR payments) are excluded from this disclosure note as they have not arisen from contractual trading activities

The past due but not impaired amount can be analysed by age as follows:

Credit Risk - Debtors

	31 March 2019	31 March 2020
	£000	£000
Less than three Months	257	1,466
Three to six months	48	439
Six months to one year	55	332
More than one year	150	327
	<u>510</u>	<u>2,564</u>

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7.06.3 Liquidity risk

The council has a comprehensive cash flow management system that seeks to ensure that cash is available as needed. If unexpected movements happen, the council has ready access to borrowings from the money markets and the Public Works Loans Board. There is no significant risk that it will be unable to raise finance to meet its commitments under financial instruments. Instead, the risk is that the authority will be bound to replenish a significant proportion of its borrowings at a time of unfavourable interest rates. The authority sets limits on the proportion of its fixed rate borrowing during specified periods. The strategy is to ensure that no more than 50% of loans are due to mature within any rolling three-year period through a combination of careful planning of new loans taken out and (where it is economic to do so) making early repayments. Previous year restatement includes correction of accounting treatment for Soft Loan received from Hampshire County Council. The maturity analysis of financial liabilities is as follows:

7 ADDITIONAL NOTES TO THE FINANCIAL STATEMENTS

	31 March 2019	31 March 2020
	£000	£000
Less than one year	1,372	1,377
Between one and five years	5,087	4,184
Between five and ten years	1,913	1,955
Between ten and fifteen years	2,133	2,180
Between fifteen and twenty years	2,378	2,431
More than twenty years	766	258
	<u>13,648</u>	<u>12,385</u>

All trade and other payables are due to be paid in less than one year.

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7.06.4 Market risk

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

- Borrowings at fixed rates – the fair value of the liabilities borrowings will fall
- Investments at variable rates – the interest income credited to the Surplus or Deficit on the Provision of Services would rise
- Investments at fixed rates – the fair value of the assets would fall.

Borrowings are not carried at fair value, so nominal gains and losses on fixed rate borrowings would not impact on the Surplus or Deficit on the Comprehensive Income and Expenditure Statement. However, changes in interest payable and receivable on variable rate borrowings and investments would be posted to the Comprehensive Income and Expenditure Statement and affect the General Fund balance. Movements in the fair value of fixed rate investments that have a quoted market price will be reflected in Other Comprehensive Income and Expenditure.

7 ADDITIONAL NOTES TO THE FINANCIAL STATEMENTS

The council has a number of strategies for managing interest rate risk. The Annual Treasury Management Strategy draws together council's prudential and treasury indicators and its expected treasury operations, including an expectation of interest rate movements. From this Strategy a treasury indicator is set which provides maximum limits for fixed and variable interest rate exposure. The central treasury team will monitor market and forecast interest rates within the year to adjust exposures appropriately. For instance during periods of falling interest rates, and where economic circumstances make it favourable, fixed rate investments may be taken for longer periods to secure better long term returns, similarly the drawing of longer term fixed rates borrowing would be postponed. The risk of interest rate loss is partially mitigated by Government grant payable on financing costs.

As at 31 March 2020 there was no material exposure to changes in interest rates due to the Bank of England base rate dropping to a record low of 0.10% as at the 19 March 2020. Therefore, had the interest rate been 1% higher (or conversely 1% lower), there would be no material impact on other financial statements with these accounts.

7.07 FURTHER ACCOUNTING POLICIES

The majority of the accounting policies which the Council adopts have been put before their respective statements and notes to aid the readability and understanding of this document. However there are a few which cover the accounts as a whole and do not necessarily relate to just one area, these are detailed below.

These accounts have been prepared on a going concern basis which means that the functions of the Council will continue in operational existence for the foreseeable future

Accruals of Income and Expenditure – Activity is accounted for in the year it takes place, not simply when cash payments are made or received. In particular:

- Revenue from sale of goods is recognised when the council transfers the significant risks and rewards of ownership to the purchaser and it is probable that economic benefits or service potential associated with the transaction will flow to the council.
- Revenue from provision of services is recognised when the council can measure reliably the percentage of completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to the council.
- Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption they are carried as inventories on the balance sheet.

7 ADDITIONAL NOTES TO THE FINANCIAL STATEMENTS

- Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when the payments are made.

Exceptional Items - When items of income and expense are material, their nature and amount is disclosed separately, either on the face of the Comprehensive Income and Expenditure Statement or in the Notes to the Accounts.

Investments - The council accounts for investments in accordance with the Treasury Management Strategy, which is set annually.

The council's investment priorities are:

- the security of capital and
- the liquidity of its investments
- the yield on maturity of the investment

Minimum revenue provision (MRP)

Regulations 27 and 28 in the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 requires the council to make an annual charge to revenue to contribute towards the reduction in its overall borrowing requirement - known as a Minimum Revenue Provision.

The council has adopted the asset life method of calculating MRP where the charge is spread in equal annual instalments over the life of each asset that creates a borrowing requirement. MRP commences in the financial year following either the year in which the expenditure was incurred or the year when the asset becomes operational.

Any interest costs to the Comprehensive Income and Expenditure Statement in relation to finance leases will also be mitigated by a corresponding MRP adjustment.

Overheads

The costs of overheads and support services are charged to those services that benefit from the supply or service. The total absorption costing principle is used – the full cost of overheads and support services are shared between users in proportion to the benefits received.

Prior Period Adjustments, changes in Accounting Policies and Estimates and Errors

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

7 ADDITIONAL NOTES TO THE FINANCIAL STATEMENTS

Changes in accounting policies are only made when required by proper accounting practices or the change provides more reliable or relevant information about the effect of transactions, other events and conditions on the 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 applied.

Material errors discovered in prior period figures and corrected retrospectively by amending opening balances and comparative amounts for the prior period.

Revenue recognition - Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net worth. Revenue is recognised when it is probable that future economic benefits will flow to the council and these benefits can be measured reliably.

IFRS 15 (Revenue from Contracts with Customers) is applied in accounting for revenue arising from the following transactions and events:

- the sale of goods
- the rendering of services
- interest, royalties and dividends.
- non-exchange transactions (i.e. council tax)
- where previously a liability had been recognised (i.e. creditor) on satisfying the revenue recognition criteria

The amount of revenue arising on a transaction is usually determined by agreement between the council and the buyer or user of the asset. It is measured at the fair value of the consideration received or receivable taking into account the amount of any trade discounts and volume rebates allowed by the council.

VAT - Value Added Tax is excluded from both revenue and capital in terms of both income and expenditure except where the council is not able to recover VAT on expenditure. HM Revenue and Customs allow Local authorities to recover the majority of VAT incurred.

8 COLLECTION FUND

The Collection Fund Statement is a record of revenue expenditure and income relating to the council's role as a billing council for council tax and National Non-Domestic Rates (NNDR) in accordance with the requirements of section 89 of the Local Government Finance Act 1988. Its primary purpose is to show the transactions of the billing council in relation to the collection from taxpayers of tax due and distribution of the same to local authorities (including itself) and the Government. Collection Fund Statement items are only included within the Comprehensive Income and Expenditure Account and Balance Sheet when they relate to the council's own entitlements or commitments as distinct from those of Local Government or Central Government partners. Amounts owed to or owing by Taxpayers at the Balance Sheet Date are therefore not shown in the council's Balance Sheet with the exception of the proportion of council tax to which the council itself is entitled.

It also shows how the income is distributed between Hart District Council, Hampshire County Council, Hampshire Police and Crime Commissioner and Hampshire Fire and Rescue.

Billing authorities in England are required by statute to maintain a separate fund for the collection and distribution of amounts due in respect of council tax and NNDR. The fund key features relevant to accounting for council tax in the core financial statements are:

- In its capacity as a billing council the council acts as agent; it collects and distributes council tax income on behalf of the major preceptors and itself.
- While the council tax income for the year credited to the Collection Fund is the accrued income for the year regulations determine when it should be released from the Collection Fund and transferred to the General Fund of the billing council or paid out of the Collection Fund to major preceptors.
- The council tax income included in the Comprehensive Income and Expenditure Account for the year shall be the accrued income for the year. The difference between the income included in the Comprehensive Income and Expenditure Account and the amount required by regulation to be credited to the Collection Fund shall be taken to the Collection Fund Adjustment Account and included as a reconciling item in the Movement in Reserves Statement.

Since the collection of council tax and NNDR Income is in substance an agency arrangement:

- Cash collected by the billing council from council tax and Non-domestic Rate debtors belongs proportionately to the billing council and the major preceptors. There will be therefore a debtor/creditor position between the billing 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 taxpayers and non-domestic rate payers.

8 COLLECTION FUND

	Council Tax	Non- Domestic Rates	Total Collection Fund	Council Tax	Non- Domestic Rates	Total Collection Fund
	2018/19 £000	2018/19 £000	2018/19 £000	2019/20 £000	2019/20 £000	2019/20 £000
Amounts required by statute to be credited to the Collection Fund						
Council Tax Receivable (net of benefits' discounts for prompt payment and transitional relief)	(68,020)	N/A	(68,020)	(72,019)	N/A	(72,019)
Transitional protection payments	N/A	(183)	(183)	3	390	393
Non Domestic Rates Receivable (net of discretionary and mandatory reliefs)	N/A	(29,926)	(29,926)	N/A	(30,569)	(30,569)
	(68,020)	(30,109)	(98,129)	(72,016)	(30,179)	(102,195)
Amounts required by statute to be debited to the Collection Fund						
Precepts/demands for council tax and shares of non-domestic rating income						
- Hampshire County Council	48,510	2,766	51,276	50,346	2,744	53,090
- Hampshire Police and Crime Commissioner	7,168	N/A	7,168	8,200	N/A	8,200
- Hampshire Fire and Rescue Service	2,655	307	2,963	2,756	305	3,061
- Hart District Council	9,848	12,293	22,141	10,228	12,197	22,425
Payment with respect to central government share of NDR (net of allowable deductions)	N/A	15,367	15,367	N/A	15,246	15,246
Impairment of Debts/Appeals						
- write-off of uncollectable debts	11	0	11	150	(282)	(133)
- change in the impairment allowance for doubtful debts	173	130	303	46	123	170
- change in allowance for loss of income on appeals	N/A	(357)	(357)	N/A	(79)	(79)
Charge to the General Fund for allowable collection costs for non-domestic rates	N/A	100	100	N/A	99	99
(Surplus) or Deficit for Year	344	497	841	(290)	174	(116)

Continued on next page

8 COLLECTION FUND

Continued from previous page

	Council Tax	Non- Domestic Rates	Total Collection Fund	Council Tax	Non- Domestic Rates	Total Collection Fund
	2018/19	2018/19	2018/19	2019/20	2019/20	2019/20
	£000	£000	£000	£000	£000	£000
Contribution towards previous year's estimated surplus or deficit:						
- Hampshire County Council	305	(186)	119	(230)	24	(206)
- Hampshire Police and Crime Commissioner	45	N/A	45	(34)	N/A	(34)
- Hampshire Fire and Rescue Service	17	(21)	(3)	(13)	3	(10)
- Hart District Council	64	(826)	(762)	(47)	107	60
- Central Government	N/A	(1,032)	(1,032)	N/A	134	134
Movement on the fund	775	(1,567)	(792)	(614)	442	(172)
Opening fund balance	(375)	1,840	1,466	400	273	674
Closing fund balance	400	273	673	(214)	715	501

8 COLLECTION FUND

8.1 COUNCIL TAX

The average council tax at Band D set by the council was as follows:

	2018/19	2019/20
	£	£
Hampshire County Council	1,200.96	1,236.87
Hampshire Police and Crime Commissioner	177.46	201.46
Hampshire Fire and Rescue Service	65.74	67.71
Hart District Council	166.84	171.84
Town and Parish Councils	66.41	79.44
	<u>1,677.41</u>	<u>1,757.32</u>

8 COLLECTION FUND

The amount of income generated in 2019/20 by each council tax band was as follows:

Band	Chargeable Dwellings	Band Multiplier	Band D Equivalent	Council Tax income per band £
A	559	6/9	303.40	551,348
B	1,704	7/9	1,057.10	1,920,994
C	7,580	8/9	5,940.60	10,795,438
D	8,110	9/9	7,718.30	14,025,928
E	7,321	11/9	8,797.90	15,987,810
F	6,501	13/9	9,338.80	16,970,749
G	3,632	15/9	6,031.40	10,960,442
H	222	18/9	444.00	806,850
			39,631.50	
Class O Exempt Properties			633.80	
Plus allowance for new properties and ending of discounts 0.5%			954.02	
Less allowance for properties being demolished and additional discounts 0.01%			0.00	
Assumed losses on collection 1.3%			(515.21)	
Tax Base (equivalent Band D) approved by council			40,704.11	

8 COLLECTION FUND

8.2 INCOME COLLECTABLE FROM BUSINESS RATE PAYERS

The council collects non-domestic rates for its area based on local rateable values multiplied by a uniform national rating multiplier. The total NDR Rateable Value as at 31 March 2020 was £74,213,954 (£75,945,388 as at 31 March 2019)

The non-domestic rate multiplier for 2019/20 was 49.1 pence for qualifying properties of less than £51,000 rateable value and 50.4 pence for qualifying properties of more than £51,000 rateable value (2018/19 48.0 pence and 49.3 pence respectively).

9 GROUP ACCOUNT

Under the terms of IFRS3 where the council has an interest in any other entity, it is required to prepare a Group Income and Expenditure Account and Group Balance Sheet. The council holds no interest in any other entity at the balance sheet date and therefore no group accounts have been produced.

Where either the council, or its Elected Members or Senior Officers are connected with any other entity that it transacts any business with, it is required to disclose these as related party interests. These are shown in the Related Party Transactions note of these accounts.

10 GLOSSARY

10.0 GLOSSARY

Accounts

A generic term for statements setting out details of income and expenditure or assets and liabilities or both in a structured manner. Accounts may be categorised by the type of transactions they record e.g. revenue accounts, capital accounts or by the purpose they serve e.g. management accounts, final accounts, balance sheets.

Accounting policies

Those principles, bases, conventions, rules and practices applied by an entity that specify how the effects of transactions and other events are to be reflected in its financial statements through:

- (a) recognising
- (b) selecting measurement bases for, and
- (c) presenting assets, liabilities, gains, losses and changes to reserves.

Accounting policies define the process whereby transactions and other events are reflected in financial statements. For example, an accounting policy for a particular type of expenditure may specify whether an asset or a loss is to be recognised; the basis on which it is to be measured; and where in the revenue account or balance sheet it is to be presented.

Accounting standards

A set of rules explaining how accounts are to be measured, maintained and reported. By law, local authorities must follow 'proper accounting practices', which are set out in Acts of Parliament and in professional codes and statements of recommended practices. These standards make comparability, among other things, possible.

Accrual

The recognition of income and expenditure as it is earned or incurred, as opposed to when cash is received or paid.

Actuarial gains and losses

For a defined benefit pension scheme, the changes in actuarial deficits or surpluses that arise because:

- (a) events have not coincided with the actuarial assumptions made for the last valuation (experience gains or losses); or
- (b) the actuarial assumptions have changed.

10 GLOSSARY

Amortisation

The reducing of the value of assets to reflect their reduced worth over time. The term means the same as depreciation, though in practice amortisation tends to be used for the write-off of intangible assets.

Assets

These can either be:

Long term (non-current), tangible assets that give benefits to the authority for more than one year.

Property, Plant and Equipment, assets which are held for use in the production or supply of goods and services, for rental to other, or for administrative purposes.

Investment property is property (land or a building, or part of a building, or both) held solely to earn rentals or for capital appreciation, or both.

Intangible assets, these are usually stand-alone intellectual property rights such as software licences that, although they have no physical substance are right to show on the balance sheet where they have been capitalised as being of benefit for more than the year of account. Where software is integral to the running of hardware it is properly included in the value of the hardware.

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Audit – internal

The council has an internal audit service, they have a wide ranging role and are responsible for auditing key financial systems and all other activities of the council on a rolling programme. They make recommendations to improve internal controls, safeguard assets and secure value for money.

Audit – external

Our external auditor is Ernst and Young LLP. They report to the council on a number of issues, but in this context they provide assurance to the council that this statement of accounts 'presents fairly' the council's financial affairs and position.

Balance sheet

A statement of the recorded assets, liabilities and other balances at a specific date at the end of an accounting period.

Budget

A forecast of the Council's planned expenditure. The level of council tax is set by reference to detailed revenue budgets. Budgets are reviewed during the course of the financial year to take account of pay and price changes, and other factors affecting the level or cost of services.

10 GLOSSARY

Cabinet

The Cabinet is the executive board responsible for undertaking all of the council's functions, except those functions which are reserved to the full council or delegated to committees or officers. When the executive councillors meet collectively they are known as the Cabinet.

Capital Adjustment Account

This account includes the amalgamated balances of the Property, Plant and Equipment Restatement Account and the Capital Financing Account at 31 March and holds financing transactions relating to capital expenditure.

Capital charges

Charges made to service expenditure accounts based on the service's use of property, plant and equipment assets (depreciation and impairment) plus credits relating to government grants and capital contributions used to pay for those assets.

Capital expenditure

Expenditure on the acquisition or enhancement of property, plant and equipment assets, Revenue Expenditure Financed by Capital under Statute (REFCUS), advances (loans) or grants to other individuals/organisations.

Capital receipts

Income received from the sale of property, plant and equipment assets.

Central services to the public

This includes the costs of local tax collection, elections, emergency planning, local land charges and any general grants.

CIPFA

CIPFA is the Chartered Institute of Public Finance and Accountancy, which is the leading professional accountancy body for public services.

Code of Practice on Local Authority Accounting in the United Kingdom

Issued by CIPFA, this is the guidance which is followed when preparing these statements. It provides expert support in dealing practically with the preparation of the year-end accounts and is the guidance by which every local authority must follow.

10 GLOSSARY

Collection fund

The fund into which are paid amounts of council tax and non-domestic rates and from which are met demands by county and district councils and payments to the national non-domestic rates pool.

Community assets

Community assets are a class of property, plant and equipment assets which are expected to be held by the council in perpetuity. Examples include parks, historic buildings and works of art.

Corporate and democratic core

Comprises all activities which local authorities engage in because they are elected, multi-purpose authorities. It includes the costs of the Head of the Paid Service, costs of treasury management and bank charges and the costs of democratic representation.

Council tax

A local tax set by councils to help pay for local services. There is one bill per dwelling based on its relative value compared to others in the area.

There are discounts, including where only one adult lives in the dwelling. Bills will also be reduced for properties with people on low incomes, for some people with disabilities and some other special cases.

Current service cost (pensions)

The increase in the present value of a defined scheme's liabilities, expected to arise from employee service in the current period.

Current Value

The amount at which would be paid for the asset in its existing use.

Deferred credits

Income still to be received (or applied in the accounts) where deferred payments (or application) have been allowed. For example the principal outstanding from the sale of former council houses (deferred capital receipts).

Defined Benefit scheme

A pension or other retirement benefit scheme other than a defined contribution scheme. Usually, the scheme rules define the benefits independently of the contributions payable, and the benefits are not directly related to the investments of the scheme. The scheme may be funded or unfunded (including notionally funded).

10 GLOSSARY

Depreciation

Depreciation is the measure of the consumption or wearing out of the useful economic life of a property, plant and equipment asset.

Events after the balance sheet date

Significant events, favourable and unfavourable, that occur between the Balance Sheet date and the date when the Statement of Accounts is authorised for issue.

Fair value

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.

Finance lease

A lease that transfers substantially all of the risks and rewards of ownership of a property, plant and equipment asset to the lessee.

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General Fund (GF)

This is the primary revenue account which records the cost of providing the majority of the council's services.

Housing Benefit

The housing benefit scheme is a national scheme administered at a local level by the council on the behalf of the Department for Work and Pensions. It is a means-tested service where the council can pay all, or part of, a household's rent or council tax, or both.

Housing benefit subsidy

The government reimburses the Council for most of the housing benefit payments made to residents plus an allowance to cover the costs of administering the scheme.

International Accounting Standard 19 – Employee Benefits

This Standard is based on the principle that an organisation should account for retirement benefits when it is committed to give them, even if the actual giving will be many years into the future.

Impairment

A reduction in the value of a property, plant and equipment asset below its carrying amount on the balance sheet.

10 GLOSSARY

International financial reporting standards (IFRS)

Since 2010/11 the Council has had to prepare its statements in line with International Financial Reporting Standards. On implementation, this resulted in a significant change to the way that budgets and accounts are prepared with different accounting treatment being applied to asset valuations, leases, some accruals and derivatives.

Lease

An agreement whereby the lessor conveys to the lessee in return for a payment or series of payments the right to use an asset for an agreed period of time.

Liabilities

Amounts the authority either owes or anticipates owing to others, whether they are due for immediate payment or not.

Minimum revenue provision (MRP)

The minimum amount that the council must charge to the revenue account in the year in respect of the repayment of principal of borrowing for capital purposes.

National non-domestic rates (NNDR) also known as Business Rates

The form of local taxation charged on non-residential premises at a level set by central government.

Net Book Value

The amount at which property, plant and equipment assets are included in the balance sheet i.e. their historical cost or fair value less the cumulative amounts provided for depreciation and impairment.

Net service expenditure

Comprises of all expenditure less all income, other than income from council tax and revenue support grant, in respect of a particular service.

Non-distributed costs

Overheads for which no user now benefits and should not be apportioned to services. Costs generally included under this heading are those arising from early retirement payments to the pension fund.

10 GLOSSARY

Operating lease

A lease agreement in which substantially all of the risks and rewards of ownership of a property, plant and equipment asset remain with the lessor.

Outturn

The final total expenditure and income amount in any financial year.

Overheads

The costs of overheads and support services are charged to those services that benefit from the supply or service. The total absorption costing principle is used – the full cost of overheads and support services are shared between users in proportion to the benefits received, with the exception of:

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

Non-distributed Costs – the cost of discretionary benefits awarded to employees retiring early and impairment losses chargeable on Assets Held for Sale.

Past service cost

The increase in the present value of the pension scheme liabilities, related to employee service in prior periods arising in the current period as a result of the introduction of, or improvement to, retirement benefits.

Precept

The charge made by another authority on the council to finance its net expenditure. The council currently has the following precepting authorities: Hampshire County Council, Police and Crime Commissioner for Hampshire, Hampshire Fire and Rescue Authority and all the town and parish councils in the district.

10 GLOSSARY

Prior period adjustments

The adjustments applicable to prior years arising from the correction of material errors.

Provisions

Amounts set aside for liabilities of uncertain timing or amount that have been incurred.

Related parties

This is defined under Financial Reporting Standard 8. The council is required to disclose material transactions with related parties, which can include central government, subsidiary and associated companies, the Pension Fund, other councils, and chief and senior officers. IAS24 requires attention to be drawn to the possibility that the reported financial position may have been affected by the existence of related parties and by material transactions with them. Two or more parties are related parties when at any time during the financial period:

- Page 206
- (a) one party has direct or indirect control of the other; or
 - (b) the parties are subject to common control from the same source; or
 - (c) one party has influence over the financial and operational policies of the other party to the extent that the other party might be inhibited from pursuing at all times its own separate interests; or
 - (d) the parties, in entering a transaction, are subject to influence from the same source to such an extent that one of the parties to the transaction has subordinated its own separate interest.

Remuneration

All sums paid to or receivable by an employee and sums due by way of expenses allowances and the money value of any other benefits received other than in cash (excludes employer pension contributions).

Reserves

The general capital and revenue balances of the council. There are two types of reserves which might be described as either available or not available to finance expenditure. Revenue reserves which result from monies being set aside or surpluses or delayed expenditure can be spent or earmarked at the discretion of the council (e.g. General Fund). The capital receipts reserve is also available to the extent allowed for by statute. However, other capital reserves are not available to meet expenditure, e.g. the capital adjustment account.

10 GLOSSARY

Revaluation reserve

This account includes transactions relating to the revaluation and impairment of the councils assets.

Revenue Expenditure

Day to day expenditure incurred in the provision of services including salaries and wages, transport and goods and services.

Revenue Expenditure Financed by Capital under Statute (REFCUS)

A type of capital expenditure which may be deferred but which does not give rise to tangible assets. Examples are renovation grants and disabled facilities grants (grants to private individuals and companies to improve housing standards) and capital grants to other organisations.

Revenue Support Grant

A historic grant that used to be paid by the government in support of the Council's revenue expenditure, as part of the Formula Grant.

Section 151 Officer

Another term to describe the Statutory Chief Financial Officer of the council with responsibilities as set out in the Statement of Responsibilities for the Statement of Accounts and within Section 151 of the Local Government Act.

II INDEPENDENT AUDITOR'S REPORT

Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions. The maintenance and integrity of the Hart District Council web site is the responsibility of the directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the web site.

Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

AUDIT COMMITTEE

DATE OF MEETING: 27 OCTOBER 2020

TITLE OF REPORT: INTERNAL AUDIT PROGRESS REPORT 2020/21

Report of: Internal Audit Manager

Cabinet Member: Councillor James Radley, Finance and Corporate Services

1. PURPOSE OF REPORT

1.1 To update the Committee on Internal Audit work Carried Out between July 2020 and October 2020.

2. OFFICER RECOMMENDATION

2.1 That the Internal Audit work completed between July 2020 and November 2020 be noted.

3. BACKGROUND

3.1 Internal Audit prepares a risk based plan which identifies the work that is to be carried out during the year. The plan for 2020/21 is a reduced one, taking into account the impact of COVID-19 has had on internal audit work. The plan was approved by the Committee in July 2020.

3.2 Progress on internal audit reviews is shown below:

Area of Review	Current Status	Target Completion Date
IT Controls	In progress	Nov 20
Fraud Risk Assessment	Complete	
Accounts Receivable	In progress	Nov 20
Payroll	Not yet started	Dec 20
Council Tax & Business Rates	Not yet started	Dec 20
Cash Management	Complete	
Housing Benefits	Not yet started	Feb 21
Treasury Management	In progress	Nov 20
Accounts Payable	Not yet started	Jan 21
Main Accounting	Not yet started	Jan 21
Waste Contract	Not yet started	Feb 21
Section 106 Agreements	In progress	Nov 20
Audit Committee Request on payments	Complete	

4. CONSIDERATIONS

4.1 Planned Work

During the period between July 2020 and November 2020 reports were issued for:

Fraud Risk Assessment

Cash Management

Payments Review (During Council response to COVID -19)

4.2 Unplanned Work

Resources from Internal Audit have been used to complete the Business Grants Payment process. Although the scheme has now closed in terms of payments being made, there are still a number of Government Returns that need to be completed each week and the reconciliation of funds will also need to be carried out.

4.3 Fraud

4.4 We have carried out a number of post Business Grant payment checks to identify potential frauds. We have prevented at least one fraudulent payment being made and have also identified 3 payment errors that are now being corrected, where appropriate action will be taken to recover the grant paid.

4.5 We are currently preparing data that will be sent to the National Fraud Initiative, this is a national data matching exercise. Any data matches that are identified as a potential fraud will require follow up by either Internal Audit or Capita's Fraud Team.

5. Risk Management

5.1 Internal Audit continue to facilitate the risk management process to ensure there are effective arrangements in place to manage risk. A summary is shown below:

Requirement	How Achieved	Effectiveness
Corporate Risk Register in place and reviewed	Corporate Risk Register is in place. The content of the register was reviewed by Leadership Team in October 2020.	Good level of assurance

	Content of the risk register was reported to Overview and Scrutiny in October 2020.	
Operational Risk Registers linked to Service Plans	Corporate Services – Risk Register in place Community Services Risk Register in place Tech Services In Progress Place No progress made	Partial Assurance Issue raised in Annual Governance Statement
Risk clearly identified in key decision making process	Risks are included in Cabinet Reports for key decisions.	Good level of assurance
Regular reviews by management of both Corporate Risk Register	Corporate Risk Register is reviewed in line with Audit Committee dates..	Good level of assurance
Ownership of risks that are identified	Ownership of each risk is clearly identified.	Good level of assurance
Risk Management Policy in place	Revised policy was adopted in March 18. Policy reviewed Feb 20.	Good level of assurance

6. FINANCIAL AND RESOURCE IMPLICATIONS

6.1 There are no direct financial implications arising from this report.

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APPENDICES

Appendix 1 – Fraud Risk Assessment

Appendix 2 – Cash Management

Appendix 3 - Payments Review in response to COVID-19

Area of Review	Fraud Risk Assessment
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Introduction

Every £1 that a local authority loses to fraud is £1 that it cannot spend on supporting the community. Fraud and corruption are a drain on local authority resources and can lead to reputational damage and the repercussions maybe far reaching. Fraudsters are constantly revising and sharpening their techniques and local authorities need to do the same. There is a clear need for a tough stance supported by elected members, chief executives and those charged with governance. This includes tackling cross-boundary and organised fraud and corruption attempts, as well as addressing new risks such as social care fraud and cyber issue.

The purpose of this assessment is to review the effectiveness of the internal control framework in place to prevent the risk of fraud and corruption. The review is based on the Fighting Fraud and Corruption Locally Strategy for the 2020s. This strategy reflects best practice for Local Government and was reviewed and relaunched in March 2020, the checklist produced in the strategy document has been used as the basis of this risk assessment. The review will identify any weaknesses that exist and, where it is felt improvements are required, agree actions to address the weakness.

Conclusions

Hart Council is not immune to the risk of Fraud. There is an awareness that frauds are taking place in Housing Benefit and Single Person discounts, however there are controls and mitigations in place to manage these risks.

Hart recognises that public funds need to be protected from the risk of fraud and we have established a reasonable control framework to achieve this. This includes:

- Dedicated Fraud Resource
- Fraud resource in the 5 Council Framework for Revenues and Benefits
- Active involvement in National Fraud Initiative (NFI)
- Adequate Separation of duties for financial transactions
- Internal Audit consider the risk of fraud in all reviews in particular financial reviews
- Raising awareness of fraud in officer and member training, newsletters and reminders in staff bulletins
- External Audit complete annual reviews – Fraud related areas include - Misstatements due to fraud or error and Risk of fraud in revenue and

expenditure recognition, through inappropriate capitalisation of revenue expenditure

However, there are some weakness that need to be addressed the key areas being:

- Individual Service Risk Registers need to be re-established and include an appropriate consideration of fraud risk
- Declarations of Interest need to be up to date and regularly reviewed
- The DBS framework needs to be fully reviewed, responsibilities defined and ensure that all roles requiring DBS checks have them and that they are up to date.

Post Covid-19 fraud checks need to be carried out and maintained going forward as part of the recovery plan

OPINION ON CONTROL FRAMEWORK

The overall level of opinion that can be provided on the internal control framework for this review is:

Levels of Assurance	
Substantial	Substantial assurance can be given where there is a sound system of controls in place which are applied consistently to enable achievement of the intended objective.
Satisfactory	Satisfactory assurance can be given when there is generally a sound system of internal control in place with only minor lapses, and in general objectives are being achieved.
Limited	Limited assurance is given where controls in place are not always applied and objectives may not be achieved, meaning the Council is exposed to the risk of financial loss, fraud or the loss of reputation.
None	No assurance is given where weaknesses in control has resulted if a failure to achieve objectives

	Risk/Issue	Responsible Officer	Action Taken	Target Date
1	That the Finance Portfolio Holder is not made aware of the Fraud Risk Assessment	Audit Manger	A copy of the assessment will be provided to the Portfolio Holder.	October 2020
2	That Managers are not identifying and accountable for the risks in their service areas	All Heads of Service	Fraud risk assessments to be added to risk register for each service and where appropriate to service plans. Audit Manager to engage with HOS commencing September 2020	October 2020
3	That fraud is not consistently considered in all new policies and procedures	All Heads of Service	Refresher training to be undertaken for HOS and Management team as part of the Fraud and Cyber Security 2020 training	December 2020
4	That HR policies relating to Fraud and Corruption are out of date and are not readily available	Head of Corporate Services	Review and refresh of HR policies taking place by 31/3/21	March 2021
5	That officers and contractors are not always aware of the corporate policies	All Heads of Service	This will need to be covered in the corporate fraud training	December 2020
6	That the members declarations of interest are not up to date.	Head of Corporate Services	Committee services has sent a reminder to all members (July 2020) about the requirement to keep these records up to date Declarations of Interest will be available on Modern.gov which is currently being implemented	Completed
7	That the Transparency code is not adhered to	Head of Corporate Services	Capita currently prepare the regulatory transparency reports on	In place

			spend. We will need to take this back in house by 31/3/21	
8	That the manual book to record gifts and hospitality is inaccessible during lock down. An electronic version should be put in place.	Head of Corporate Services	Head of Corporate Services to Review this	September 2020
9	Officers and Members are not consistently recording gifts and hospitality	Head of Corporate Services	EF to review what is being recorded currently and report to Audit Committee Chair	October 2020
10	That recruitment checks in place do not meet employment law	Head of Corporate Services	In place- proof of right to work but a checklist needs to be produced and consistently utilised. To be reviewed in Payroll Audit 2020	Ongoing
11	The DBS framework needs to be reviewed	Head of Corporate Services	DBS framework will be reviewed, and a signatory appointed	December 2020
12	That there may be some training gaps in the some of the Internal Audit side of the team	Audit Manager	Will be reviewed as part of PDR process.	October 2020
13	Post Covid 19 fraud checks needs to be carried out and maintained going forward as part of the recovery plan	All Heads of Service	The Audit Manager will discuss risks with HOS as part of the Risk review. Training / Oversight to be looked in to by Audit team	Ongoing

Area of Review	Cash Management
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1. BACKGROUND

As part of the 2020-21 Internal Audit Plan a review of the key controls in place for Cash Management.

Responsibility for Cash Management lies with the Head of Corporate Services, with the day to day administration and management of the function outsourced to Capita.

2. SCOPE OF THE REVIEW

The audit approach has been to review processes surrounding the below stated control objectives, perform walkthrough testing, where appropriate, and assess the effectiveness of internal controls and ensure risk is managed effectively.

3. CONTROL OBJECTIVES

The scope of this review has encompassed the following control objectives:

Control Objectives	
1	That all income is properly accounted for
2	That income is held securely
3	That income is banked in a timely manner
4	That the Cashiering function is properly resourced

4. AUDIT APPROACH

Our audit approach to this review has been to:

- Obtain and understanding of the relevant processes through discussions with key personnel, review of systems documentation and perform walkthrough tests where appropriate.
- Identify the key risks within the function.
- Evaluate and test the effectiveness of the controls in place to address these risks.
- This review has been undertaken in compliance with the Internal Audit Public Sector Standards.

5. OPINION ON CONTROL FRAMEWORK

The overall level of opinion that can be provided on the internal control framework for this review is:

Levels of Assurance	
Substantial	Substantial assurance given where there is a sound system of controls in place, which applied consistently to enable achievement of the intended objective.
Satisfactory	Satisfactory assurance given where there is generally a sound system of internal control in place with only minor lapses, and in general, objectives achieved.
Limited	Limited assurance is given where controls in place are not always applied and objectives may not be achieved, meaning the Council is exposed to the risk of financial loss, fraud or the loss of reputation.
None	No assurance is given where weaknesses in control has resulted if a failure to achieve objectives

6. SUMMARY OF FINDINGS

Control Objective One: That all income is properly accounted for

- The council has a set of financial regulations in place although it is noted that they are currently being reviewed and updated.
- The council has appropriate processes in place that allows income received to be properly recorded through the Income Management system.
- Testing shows the council has satisfactory controls in place that ensure income is correctly processed and properly accounted for via Pay360.
- The council has an appropriate suspense accounts in place to record unidentified payments that are received.
- The council has an up to date and accurate monthly bank reconciliations in place that provides assurance differences between the cash book and bank statements are identified and processed accordingly.

Control Objective Two: That income is held securely

- The council has satisfactory controls in place that ensure income is received in a secure environment.
- Appropriate backups are in place concerning Pay360.
- There is a regular review of Integra's system user access to ensure it isn't used inappropriately.

Control Objective Three: That income is banked in a timely manner

- Testing shows processes are established that ensure income is banked in a timely manner. Although there is scope to reduce the number of collections by Loomis Security to a weekly given that the Council rarely holds cash on-site.
- Appropriate insurance arrangements are in place for holding cash on-site up to the value of £20,000, providing it is held securely.

Control Objective Four: That the Cashiering function is properly resourced

- The current resource is provided by Capita and is sufficient to provide the service. It is noted that the Cashier Function will be brought back in house as part of the transition of Exchequer Services from Capita to an in-house function.

Summary of Identified Risks

Ref	Risk/Issue	Risk Assessment	Management Response	Responsible Officer	Target Date
1	The council should ensure that photo ID of LOOMIS staff is created and published in the Cash Office.	Low	We will check with Loomis as to whether they can provide this for the staff that carry out this service. If this is possible we will provide this.	Head of Corporate Services	30/11/20
2.	Consider reducing the number of cheque collections made by LOOMIS to a weekly collection rather than twice weekly.	Low	This will be reviewed as part of the ongoing delivery of the Corporate Services contract.	Head of Corporate Services	31/03/21

Area of Review	Audit Committee Request – Payments Review COVID Response
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Background

At the last meeting of the Audit Committee in July 2020, the committee requested a review of payments made to suppliers, during the period that the Council was responding to the impact of COVID-19. The purpose of the review was to:

- Identify any unusual transactions that may be due to fraud or error.
- Identify instances of procurement where the council did not comply with its own Financial Regulations as well as best practice..

All payments made to suppliers during the period 1.3.20 – 22.7.20 were included in the review. During this period 1184 payments were processed, it should be noted that not every payment was reviewed in detail.

Internal Audit only reviewed high value procurements and transactions where the description of the payment merited further investigation.

Findings

Payments made via Accounts Payable

1. No transactions were identified that would have been due to fraud or error.
2. Two duplicate payments were found to have been paid as part of the Business Grants process, however, retrospective controls in place ensured that on each occasion one transaction was cancelled before the payment was sent to the business.
3. There was one area of procurement where an emergency decision was required to maintain business continuity. This was the purchase of laptops (£80K) and a VPN (£15K (Virtual Private Network)), to enable homeworking. These procurements have already been reported to Overview & Scrutiny in June as part of the report on the Council Response to COVID-19. This provided an appropriate level of transparency of these transactions and the reasons for an emergency decision.
4. We can provide reasonable assurance that our review of purchases made via the Accounts Payable process, during the response to COVID-19 appear to be valid.
5. However, what we did find during our review of payments were that long standing control weaknesses remained such as the avoidance of use of

Purchase Orders (PO) still exist. During the review it was found that at least 15%, which equates to 177 transactions that would require the use of a PO did not do so. The use of Purchase Orders reduces the risk of unbudgeted expenditure as well as fraud and error and is a requirement of our Purchase to Pay process.

6. Our review indicates that lack of compliance with the No PO No Pay requirement is Council wide. Whilst some services are more diligent on this issue all Heads of Service and Budget Managers should be reminded that Purchase Orders are a requirement for all payments unless the supplier is included on the Purchase Order Exemption List.
7. We did not carry out a full review of procurement compliance. Further work on procurement to confirm procurements comply with the requirements of Contract Standing Orders and Financial regulations will be carried out as part of our annual review of Accounts Payable.

Risks

- Purchase Orders are not always used where appropriate which could result in fraud and error.
- Financial Regulations and Contract Standing Orders are not adhered to
- The Purchase order Exemption List is not effective

Findings

Credit Card Payments

1. During the response to COVID-19 the overall credit limit allowed by Barclays was increased to £250,000 per month.
2. Temporary Credit limits were set for each card holder. These were in place for the period between March to July.
3. Once the initial response phase was over credit limits were returned to the normal allocated amounts.
4. The credit limit amounts are managed by the Finance Client and this ensures flexibility if large purchases are required or in times of emergency and can be reduced to reduce the risk of fraudulent use if cards are lost or stolen. Records of these limits are held.

Detailed below is the total amount spent on HDC Corporate Credit Cards March to July 2020.

Date	Actual Spend 2020	Same Period 2019
March	4,699	6,088
April	4,511	5,409
May	4,261	4,347
Juine	4,261	4,825
July	5,413	4,825

£22,626.92 out of £1,250,000 available credit spent in the 5 month period , this equates to less than 2% of the available credit (actual 1.81%)
Spend Year on Year shows that less was spent on credit cards in 2020 than in 2019.

Sample Transaction Findings

A number of credit card transactions were reviewed the following items were noted:

1. There were a number of transactions where had proof or purchase was provided but did not have VAT receipts submitted
2. Some of the payment vouchers used to record payments did not include a VAT breakdown
3. The policy states that the items should be delivered to Hart District Council - whilst it was understood practically some large items needed to be delivered to a client directly the actual purchase was made in the name of the recipient with the recipients email and contact details – there was no reference to Hart District Council.
4. From the sample taken none of the payment vouchers were signed by Managers, although some had the name inserted. It was noted that in one service area, managers did not have any oversight of the monthly credit card spend for their team.
5. Much of the spend was relating to emergency hardship payments and needed to be purchased urgently.
6. One transaction was challenged as there was the potential that there could have been better value for money if a longer term view and alternative suppliers considered.

Risks

- Insufficient controls in place to authorise credit card spend
- Inadequate supporting documentation to support the transaction
- Inability to make VAT claims due to VAT receipts not being provided
- Non compliance with Credit Card Procedures and procurement rules

Management Action Pan					
	Recommendation	Risk Level	Management Response	Responsible Officer	Target Date
1.	Purchase Orders should be used where appropriate, to reduce the risk of fraud and error.	High	Managers and Heads of Service have been reminded of this on the 7 th September 2020. Non-compliance will now be reported to SLT on a bi-monthly basis.	Head of Corporate Services	Done
2.	Checks on credit card payments should be carried out by all managers to ensure all payments are valid.	High	All Managers have been reminded of this and been written to personally with a copy of the procedures attached,	Head of Corporate Services	30/9/2020
3.	Supporting information including a valid VAT Receipt must be retained for credit card transactions.	Medium	All Managers have been reminded of this and been written to personally with a copy of the procedures attached,	Head of Corporate Services	30/9/2020
4.	All credit card Users should be reminded of the content of the Credit Card Policy, and the need to comply with the rules over the use of credit cards.	Medium	All card holders will receive a personal email in September 2020 reminding them of the requirements to comply and stating that non-compliance will result in their card being immediately cancelled	Head of Corporate Services	Done