



NOTICE OF MEETING

Meeting: Audit Committee
Date and Time: Tuesday 7 December 2021 7.00 pm
Place: Council Chamber
Enquiries to: Committee Services
committeeservices@hart.gov.uk
Members: AxaM (Chairman), Blewett, Crookes, Davies,
Farmer, Southern and Wildsmith

Joint Chief Executive

CIVIC OFFICES, HARLINGTON WAY
FLEET, HAMPSHIRE GU51 4AE

AGENDA

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

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AGENDA 2

1 MINUTES OF THE PREVIOUS MEETING (Pages 4 - 8)

The Minutes of the meeting held on 27 July 2021 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 2020/21 (Pages 9 - 35)

The purpose of this report is to inform the Committee of the content of the final Annual Governance Statement for 2020/21 and seek its approval.

RECOMMENDATION

That the Committee approves the Annual Governance Statement 2020/21.

6 AUDIT RESULTS REPORT 2020/21 (Pages 36 - 88)

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 2020/21 Statement Accounts.

RECOMMENDATION

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

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

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

7 STATEMENT OF ACCOUNTS AND LETTER OF REPRESENTATION (Pages 89 - 210)

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 2020/21 Statement of accounts and letter of representation.

8 INTERNAL AUDIT PROGRESS REPORT Q2 (Pages 211 - 269)

To update the Committee on Internal Audit work carried out between July 2021 and October 2021.

RECOMMENDATION

That the Internal Audit work completed between July 2021 and October 2021 be noted.

9 CONSIDERATION OF ADDITIONAL AUDIT WORK - SHAPLEY HEATH GARDEN COMMUNITY PROJECT (Pages 270 - 271)

The purpose of this report is to recommend an extension of the current 2021/22 Internal Audit Plan to accommodate an audit of income, expenditure, and governance arrangements in place over the Shapley Heath Garden Community Project.

RECOMMENDATION

That Members of the Committee approve an additional independent internal audit of up to 15 days procured by the Audit Manager based on the scope suggested in Section 4 of this report.

10 UPDATE ON IMPLEMENTATION OF THE CIPFA FINANCIAL MANAGEMENT CODE (Pages 272 - 274)

The purpose of this report is to provide an update to Members of the Audit Committee of progress in implementing the Financial Management Code.

RECOMMENDATION

The Committee notes this report.

Date of Publication: Monday, 29 November 2021

AUDIT COMMITTEE

Date and Time: Tuesday 27 July 2021 at 7.00 pm

Place: Council Chamber

Present:

Axam (Chairman), Blewett, Crookes, Davies, Farmer and Southern

In attendance:

Officers:

Emma Foy	Head of Corporate Services & S151 Officer
Joanne Innes	Audit Manager
Rebecca Borrett	Committee Services Officer

9 APOLOGIES FOR ABSENCE

No apologies received.

10 MINUTES OF THE PREVIOUS MEETING

Members requested an update on Item 6 of the previous minutes regarding the Planning team, both the outcome and if any further resignations had been received. The Head of Corporate Services confirmed this matter had been presented to Overview and Scrutiny, and a Group has been put in place to scrutinise an improvement plan. Further resignations had been received since the last Audit meeting, but not since the Overview and Scrutiny meeting.

Members requested clarification on Item 8 External Audit draft accounts and where these fit into the audit and publication process. The Head of Corporate Services provided clarification that the draft accounts are published on the website prior to approval.

The Minutes of the meeting held on 25 May 2021 were confirmed and signed as a correct record.

11 DECLARATIONS OF INTEREST

No declarations made.

12 CHAIRMAN'S ANNOUNCEMENTS

No announcements.

13 INTERNAL AUDIT PROGRESS REPORT Q1 2021/22

The Audit Manager updated members on Internal Audit work completed between April 2021 and June 2021:

- Two audits completed in Quarter 1, Treasury Management and Housing Benefits, both carried forward from the previous year
- Five audits currently being undertaken by the audit teams at Basingstoke and Wokingham Councils.
- Follow up of high-level risks recommendations reduced the number of recommendations from three to two as the starters and leavers recommendation has been implemented.
- Counter Fraud annual fraud risk assessment being undertaken and will be reported in September
- Additional fraud work being undertaken includes work on business grants payable. There were seven instances of is suspected fraud on the restart main scheme and four on restart discretionary scheme. All have been reported to the appropriate authorities.
- National Fraud Initiative Work is continuing
- Risk Management – Audit Manager has now met with all Heads of Service who are working on updated risks registers, including any risks identified from service plans presented in April 2021.

Members questioned if the Audit completion timescales were achievable by the end of Quarter 2 for officers. Clarification was given that the timescales for these are commencement not completion dates, and completion for these audits is expected in October/November. Further assurance was given that additional resources can be purchased if necessary and that these were relatively short audits and will be undertaken in a 10-day block to enable a speedier process. Members requested the plan be amended to show expected completion dates.

Members discussed crossover between Audit and Scrutiny panels and the need to prevent this. Audit were reminded they are required to look at the quality of data that Overview and Scrutiny use. Members asked how this works in terms of sequences and timing. The Head of Corporate Services clarified data quality audits account for approximately 20 days per year, split between Revenues and Benefits and other audits. There is not a specific data quality audit in the plan, but the opportunity existed this year to test data in performance information reported to Overview and Scrutiny. The Audit committee would see summary of this.

Members asked if in relation to planning performance, does the scope include investigation into planning gains lost on appeal. The Audit Manager advised the scope had not yet been agreed. Members questioned the time, effort and money being spent on Shapley Heath Plan and how this was being audited. The Head of Corporate Services confirmed the project is subject to the same internal controls as the rest of the Council and there is not a specific element in the Audit plan on Shapley Heath.

DECISION

The Internal Audit Progress Report Q1 for 2021/22 was noted.

14 LOCAL CODE OF CORPORATE GOVERNANCE

The Local Code of Corporate Governance informs the community how the council will conduct its business and how it will comply with the principles of good governance outlined in the CIPFA/SOLACE Corporate Governance Framework 2016. The Statement summarised how the Council meet their corporate governance responsibilities.

Members questioned if a risk assessment of the effectiveness of home working had been undertaken. The Head of Corporate Services confirmed the following:

- A framework of support and monitoring put in place
- Individual risk assessments undertaken for all staff by line managers, and reviewed by the Health and Safety Officer
- Increased frequency of 1:1 meeting and a revised template to include home working discussions
- Remote Managing training courses for managers
- All staff offered a place in the office for when they want/need to come in
- An Agile Working Policy

Members raised concern remote working had a detrimental effect on officer availability for telephone calls, although alternative contact options were available via TEAMS. Members also questioned if the Council were moving to hybrid working and if a review of hardware/software and security had been considered. The Head of Corporate Services advised no permanent decision had yet been made, but a soft phone option for all officers would be implemented within the next 12 months.

Members considered the Framework and questioned the process if someone believed the principals had not be correctly executed. The Head of Corporate Services confirmed that a resident could make a formal complaint, and staff have whistleblowing or a fraud element available to them.

Members questioned the frequency of policies, visions and plans being updated and reviewed, and if an additional column for this could be included. The Head of Corporate Services confirmed all policy with review dates by service area is held separately. In addition, departments introduced these into their service plans, or they become terms of reference for a committee.

Members raised concern the Council had been failing on version control and documents over last 18 months, and while Annual budget setting was unusual last year, budgets and revisions had been difficult to follow. The Head of Corporate Services acknowledged big changes and uncertainty had made

forecasting difficult and recognised the need to identify a process to ensure consistency moving forwards.

DECISION

The committee approved the revised Local Code of Corporate Governance.

15 DRAFT ANNUAL GOVERNANCE STATEMENT

The Head of Corporate Services advised this draft report provided members an opportunity to raise queries and questions. It has not yet been audited, but officers are confident structure is correct, although there may be a requirement to add anything high risk. A separate session for members can be arranged if required.

DECISION

That Members of the Committee review the report and bring questions or queries to the Internal Audit Manager or Head of Corporate Services during August.

16 ASSESSMENT OF COMPLIANCE WITH CIPFA FINANCIAL MANAGEMENT CODE

The Head of Corporate Services advised members the completion of the self-assessment doc in appendix A had raised practical recommendations and actions in most areas. As these are important, they should be reported to Audit Committee at each meeting.

Budget consultation for residents and business was of high importance, together with performance monitoring. Implementation of service boards will assist, but reporting must be expanded. Financial controls must be embedded in each area of organisation. Further stress testing needed over 10 years, but there will always be difficulty will always be getting accurate number. Members noted the need for priority of actions, with individual responsibility and clear timescales.

RECOMMENDATION

The Committee noted:

The publication of the FM Code and the requirement for it to be applied from 1 April 2020.

That the first year, 2020/21, is a shadow year where local authorities can demonstrate that they are working towards full implementation which, for the first full year of compliance, will be 2021/22.

That an initial assessment has been carried out at APPENDIX A of the Council's assessed level of compliance compared to the Standards contained in the FM Code.

There is an item on the Internal Audit Plan 2021/22 to review progress against actions raised in the initial review.

The meeting closed at 7.55 pm

AUDIT COMMITTEE

DATE OF MEETING: 07 DECEMBER 2021

TITLE OF REPORT: ANNUAL GOVERNANCE STATEMENT 2020/21

Report of: Joint Chief Executive and Monitoring Officer

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

1 PURPOSE OF REPORT

1.1 The purpose of this report is to inform the Committee of the content of the final Annual Governance Statement for 2020/21 and seek its approval.

2 OFFICER RECOMMENDATION

2.1 That the Committee approves the Annual Governance Statement 2020/21.

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. The statement is 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

APPENDICES:

Appendix I – Draft Annual Governance Statement 2020/21

Draft Annual Governance Statement 2020/21
November 2021

Version 1.4

29 November 2021



Page 10

ANNUAL GOVERNANCE STATEMENT 2020/21

1 Executive Summary

1.1 Responsibility for Governance

Hart District Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards. It needs to ensure that public money is safeguarded, properly accounted for, and used economically, efficiently, and effectively and in accordance with the Local Government Act 1999.

1.2 Commitment to address governance issues and keep arrangement under review

The Accounts and Audit Regulations (2015) require the Council to conduct a review, at least once a year, on the effectiveness of its system of internal control and include an Annual Governance Statement reporting on the review with the Statement of Accounts.

This statement enables us to monitor our achievements and to provide assurance that our strategic objectives have led to the delivery of strong, effective services which continue to provide value for money.

The council has also approved and adopted a Code of Corporate Governance that is consistent with the principles of the 'Delivering Good Governance in Local Government: Framework' (CIPFA/Solace, 2016). This statement is available on the Council's website www.hart.gov.uk. [Local Code of Corporate Governance](#)

The Council has summarised issues and identified areas of improvement required in Section 1.3 of this statement. Progress made against the action plan will be reported to the Audit Committee at meetings during 2021-22.

During the year ended 31 March 2021, the pandemic had an impact on the governance arrangements within Hart District Council and revised actions are detailed in section 4 of this statement.

This statement is signed off and authorised by the Leader of the Council and Joint Chief Executive on page 6

1.3 Overall opinion on assurance and whether arrangements remain fit for purpose

The council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of effectiveness is led by Internal Audit and the Head of Corporate Services and Section 151 Officer. The Senior Leadership Team also feed into this review process.

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

- The views of Internal Audit regularly reported to Audit Committee via the 'Internal Audit: Progress Report' which includes executive summaries of new reports published and highlights any comments. The Committee is able to request any member of the Senior Leadership team attends a meeting to discuss any issues or concerns.
- The views of external auditors, regularly reported to the Governance Committee, including regular progress reports, the Annual Audit Letter and Audit Results Report.
- The Internal Auditors 'Annual Report and Opinion' on the adequacy and effectiveness of the council's internal control environment: The Chief Internal Auditor's opinion for 2020-21 was that a **Satisfactory** opinion was given on the effectiveness of the arrangements relating to the framework of governance, risk management and control at Hart District Council.

The work of the Joint Chief Executive and Heads of Service who have responsibility for the development and maintenance of the control and governance environment.

The Risk Management process and Strategic Risk Register.

The areas already to be specifically addressed with new actions planned are outlined in Section 1.4 below

1.4 Summary of significant governance issues identified.

The work carried out in Section 1.3 of this report has been summarised into the Action Plan below:

Governance Action Plan 2020/21				
	Issue	Actions to be Taken.	Responsible Officer	Target Date
1	Ensure agreed actions are taken to resolve high risk internal control weaknesses identified during internal audit reviews during 2020/21.	This action has been carried forward from last year as partially completed A review of how to manage follow up's will be undertaken to ensure that actions are completed and are effective.	Internal Audit Manager	December 2021
2	Ensure Service Plans adequately reflect risks within each service and that appropriate mitigations are identified to manage them. Risks need to be documented, managed, and updated on the service risk registers	This action has been carried forward from last year as partially completed. Risks from the service plans needs to be reflected in the corporate and service risk registers and be reviewed on a regular basis. These are now being reviewed in the Service Panels and reported to O&S	All Heads of Service	December 2021
3	That the governance arrangements for the Joint Waste Contract are stabilised.	With effect from 24 May 2021 responsibility for management of the	Joint Chief Executive	December 2021

		Joint Waste Contract transferred to Basingstoke and Deane. A new Inter authority agreement has been signed reflecting the change in administration authority, and a Service Level Agreement which includes KPIs for the client team function is being finalised.		
4	Payroll high risk audit findings need to be completed.	There has been progress made in this area, but some actions are yet to be completed.	Head of Corporate Services	April 2022
5	<p>Ensure key policies are up to date and that the current version is readily available.</p> <p>Policies supporting the governance process need reviewing.</p>	<p>Progress has been made on throughout 2020/21 - further work is required as highlighted in Internal Audit reviews.</p> <p>In addition, the following policies have been identified as requiring an update:</p> <p>Risk Management Policy Internal Audit Manual Whistleblowing policy Fraud and Corruption Policy</p>	<p>All Heads of Service</p> <p>Internal Audit Manager</p>	December 2021

1.5 Approval of the Statement

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

Cllr David Neighbour, Leader of Hart District Council		
Patricia Hughes, Joint Chief Executive		
Daryl Phillips, Joint Chief Executive		

2 The Annual Governance Framework and our self-assessment against this:

- 2.1** The Local Code of Corporate Governance (June 2021) sets out the key principles that need to be in place to demonstrate effective governance. This code is based on the principles of the Delivering Good Governance in Local Government Framework 2016 CIPFA and Solace (the Framework). Section 2 of this report details our self-assessment against this.
- 2.2** This report also considers the introduction of the shadow CIPFA Financial Management Code 2019 (FM Code) during 2020/21 and our self-assessment of this is shown in Section 5 of this report.
- 2.3** The Covid – 19 pandemic impacted on our local governance arrangements and this is summarised in Section 4 of this report. Our Governance and review process and key roles and responsibilities of our Committees and Officers is shown in Section 3 of this report.

2.4 The CIPFA SOLACE Core Principles of Good Governance are shown below with our self-assessment shown in Section 2.5 et seq.

- 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.

2.5 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 2020/21 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 	<p>Member code of conduct November 2020</p> <p>Officer Code of Conduct</p> <p>Declaration of Interest Forms</p> <p>Organisational Chart</p> <p>Constitution</p>
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	<p>management to ensure it is fit for purpose, any amendments will require the approval of Full Council.</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>
2.6 Ensuring openness and comprehensive stakeholder engagement		
The Councils commitment to good governance.	How it will be achieved	Further information
<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 2020/21 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>

	<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 2020/21 the Council continued its engagement with the business community to help build effective external partnerships. A newsletter was sent to businesses on a weekly basis. ➤ 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. ➤ Newsletters are sent to Parish and Town Councils, MP's and County Councillors. During the pandemic these were daily, reducing to twice weekly and are now fortnightly. ➤ Two Covid information letters were sent to residents during the pandemic. ➤ Meetings take place between Hart Officers and Unison ➤ Staff surveys have taken place throughout 2020 ➤ Monthly staff briefings take place keeping officers up to date with new initiatives and feedback of ongoing work 	<p>Council Meetings</p> <p>Consultations</p> <p>Contact Us</p> <p>Council Feedback</p>
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- Fortnightly newsletters are sent to officers
- The Council encourages feedback on the services it provides. We have a feedback form on our website, and it is included on generic email signatures.
- Customer Care Standards and Complaints policy are in place.
- Governance arrangements are in place where we have either outsourced services or where we provide services in partnership with other councils.

Partner/Service Provided	Governance
Revenues and Benefits, IT 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

	<table border="1"> <tr> <td data-bbox="719 204 1144 316">Rushmoor Borough Council (CCTV, Building Control)</td> <td data-bbox="1144 204 1585 316">Joint Governance Group</td> </tr> <tr> <td data-bbox="719 316 1144 432">Basingstoke and Deane Wokingham Borough Council – Audit</td> <td data-bbox="1144 316 1585 432">Quarterly Management Meeting Audit Committee</td> </tr> </table>	Rushmoor Borough Council (CCTV, Building Control)	Joint Governance Group	Basingstoke and Deane Wokingham Borough Council – Audit	Quarterly Management Meeting Audit Committee	
Rushmoor Borough Council (CCTV, Building Control)	Joint Governance Group					
Basingstoke and Deane Wokingham Borough Council – Audit	Quarterly Management Meeting Audit Committee					
<p>➤ 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.</p>						
<p>2.7 Defining outcomes in terms of sustainable economic, social, and environmental benefits</p>						
<p>The Councils commitment to good governance.</p>	<p>How it will be achieved</p>	<p>Further information</p>				
<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 2020. ➤ ➤ The Council uses a robust budget process to ensure financial resources are allocated to corporate priorities. 	<p>Hart Corporate Plan 2017-2022</p> <p>Long Term Vision</p> <p>2021/22 Budget and Medium Term Financial Strategy</p> <p>Hart Performance</p>				

	<ul style="list-style-type: none"> ➤ 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 is reported to Overview and Scrutiny Committee. ➤ The Council has set out an Equality Policy which identifies how we will work towards agreed equality objectives. Where required Equality Impact Assessments are also carried out. Equality Objectives for 2021-23 is going to Cabinet April 2021 	<p>Corporate Equality Policy and Objectives 2017/21 Equality Objectives 2021 2023</p> <p>Hart Equality and Diversity Information 2020 Corporate Equality policy</p>
<p>2.8 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 2020/21. ➤ 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 2020/21. 	<p>Service Plans 2020/21</p>

	<ul style="list-style-type: none"> ➤ 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. ➤ 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. 	<p>Constitution</p>
<p>2.9 Developing the entity’s capacity, including the capability of its leadership and the individuals within it.</p>		
<p>The Councils commitment to good governance.</p>	<p>How it will be achieved</p>	<p>Further information</p>
<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 	

	<p>of training that were identified from personal development reviews.</p> <ul style="list-style-type: none"> ➤ Induction Training has been provided to new employees during 2020/21. Training is also provided to new members. ➤ Mandatory training has been provided to all managers during the year on Cyber Security, Fraud Awareness and Safeguarding. ➤ Arrangements are in place to maintain the health and wellbeing of the workforce. A Wellbeing Survey was used during 2020/21, 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 considered 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. 	<p>Constitution</p>
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	<ul style="list-style-type: none"> ➤ The Joint Chief Executives provide regular updates to employees on what is going on within the council. These include a question-and-answer session. 	
2.10 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 2020/21 was reported to the Audit Committee in May 2021. 	<p>Risk Management Policy</p> <p>Corporate Risk Register Review March 2021</p> <p>2020/21 Medium Term Financial and Budget</p>

	<ul style="list-style-type: none"> ➤ 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. ➤ A Medium Term Financial Strategy ➤ 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 20/21 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>2021/22 BUDGET & MEDIUM TERM FINANCIAL STRATEGY</p> <p>Budget Monitoring March 2021 Cabinet</p> <p>Fraud and Corruption Strategy 2019 - 2021</p> <p>Anti Fraud and Corruption Policy</p> <p>Fraud Risk Assessment 2020/21</p> <p>Whistleblowing Policy</p>
<p>2.11 Implementing good practice in transparency, reporting and audit to deliver effective accountability</p>		

The Councils commitment to good governance.	How it will be achieved	Further information
<p>The Council has transparent processes in place to ensure our decisions are in the public domain through our website, financial reporting is robust.</p>	<ul style="list-style-type: none">➤ Information on the decision-making process is readily available to all stakeholders via the Council's website.➤ 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 2021 to confirm it complies with the requirements of the CIPFA/SOLACE Framework 2016. The policy is due to go to Audit Committee in July 2021➤ 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, the key financial systems. Findings and risks identified during reviews are reported to both senior management and the Audit Committee.	<p><u>Decision Making Process</u></p> <p><u>Draft Local Code of Corporate Governance 2021</u></p> <p><u>Annual Internal Audit Report 2020/21</u></p>

	<ul style="list-style-type: none">➤ Internal Audit will provide an objective opinion on the internal control framework that was in place for 2020/21.➤ 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.	
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SECTION 3. REVIEW OF EFFECTIVENESS OF THE MEMBER GOVERNANCE FRAMEWORK

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 shown below along with the key roles and responsibilities of statutory officers:

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 2020/21 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 2020 Service Plans for 2020/21 were reviewed to ensure the content of plans aligned with the Corporate Plan and priorities.
- d) Reviewed key strategies and policies throught the year.
- e) In December 2020 reviewed the Medium Term Financial Strategy for 2021/22.
- f) In February 2020 Cabinet approved the budget for 2020/21.

OVERVIEW & SCRUTINY

In terms of reviewing and monitoring the governance framework during 2020/21 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 2020/21.
- 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) 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 2020/21.
- g) In January 2021 the committee reviewed the content of the draft budget for 2021/22, 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 2021, 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 2020/21 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 2020/21, 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.

SECTION 4. THE COVID-19 PANDEMIC

4.1 The global pandemic of coronavirus has resulted in an unprecedented challenge to both the Council and the community that it serves. All public services have been placed under considerable stress, not least of which was to seek at no notice to continue to operate in a 'lockdown' scenario with staff displaced and working from home. The Council however, responded by maintaining essential Council services, providing support to local businesses, supporting the most vulnerable in our communities and delivering national funding packages

4.2 On Friday 20th March 2020, the Hampshire and Isle of Wight Local Resilience Forum formally declared Coronavirus a major incident. Hart District Council evoked its Emergency Plan and in accordance with the Constitution, enabled decision making under emergency provisions.

4.3 The Council had to fundamentally change during this period.

- In the way it provided its services, needing to work remotely under the lockdown provisions and
- Which services it delivered, with new services being delivered from provision of food, medicines and care for those shielding, to business grants to local businesses.

4.4 Recognising the importance of considering recovery processes alongside response to a civil emergency, Cabinet approved the Council's Recovery Plans in October 2020. At the beginning of November (5th), England began its second lockdown. This was followed by a series of tiered lockdowns during December but ultimately the Government decision was to undertake a third lockdown in January, with a phased release from the lockdown, from March 2021.

4.5 Despite the resource implications, the Council has continued to:

- Continue to provide business as usual services to our residents.
- Deliver on our ongoing requirement to the response phase, most recently delivering the Lateral Flow Testing station and then supporting the localised testing for residents in GU51 and GU52 for a variant of concern.
- Progressed many of the key actions arising from the Covid-19 Recovery Plan.

4.6 The Council continued with all Committee meetings stated in Section 3 over Teams remotely, whilst streaming to residents over YouTube.

- 4.7 All decisions taken during a major incident is recorded formally in an Emergency Planning Log. These were then reported. Cabinet to formally endorse as soon as reasonably practical after the decisions have been taken. This was first reported in June 2020 and then at three further cabinet meetings.

To aid visibility of this process, details of emergency decisions taken have been reported verbally to Cabinet at the meetings of February and March 2021. This also reflected the consultation undertaken with Cabinet or Group Leaders prior to these decisions being taken.

On the 1st April 2021, the Monitoring Officer formally noted that the Council had stepped down from Major Incident and that further work would continue on Recovery, but that emergency provisions within the Constitution were no longer being used by the Council.

SECTION 5: The CIPFA Financial Management Code

- 5.1 The CIFA Financial Management Code (CIPFA FM Code) is designed to support good practice in financial management and to assist local authorities in demonstrating their financial sustainability. The Section 151 Officer has carried out a review of the Council's performance against the Financial Management Standards which will be reported to Audit Committee in July 2021.

SECTION 6: Internal Audit Opinion

6.1 Due to the impact of COVID-19 during 2020/21 the plan for 2020/21 had to be reduced and we had to prioritise our work to focus on our financial system reviews. This was because the internal audit resource was used to carry out other priority work to respond to COVID-19. A summary of work together with the overall opinion on the internal control framework is shown below:

Area of Review	Opinion Provided
Accounts Payable	Satisfactory
Accounts Receivable	Satisfactory
Cash/Income Management	Satisfactory
Council Tax & Business Rates	Satisfactory
IT Controls	Satisfactory
Main Accounting	Substantial
Payroll	Limited
Section 106 Agreements	Satisfactory
Treasury Management	Satisfactory
Housing Benefits	Limited

The annual opinion on the internal control framework during 2020/21, provided by the Audit Manager is satisfactory, however, there were two 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 is shown below:

Payroll	<ul style="list-style-type: none"> • Data Management weaknesses • Up to date and readily available key HR policies were not always easy to find. • The Starters and Leavers process is still not applied consistently by managers.

	<ul style="list-style-type: none"> • Need to review and update Disclosure Barring Service Framework
Housing Benefit	<ul style="list-style-type: none"> • Limited written policies and procedures in place in relation to the assessment of benefit applications • Debt Recovery • Quality Checks

[Annual Internal Audit Report 2020/21](#)

Section 7: Financial Management Code

7.1 The Financial Management Code (FM Code) provides guidance for good and sustainable financial management in local authorities. By complying with the principles and standards within the code authorities will be able to demonstrate their financial sustainability.

7.2 An assessment of compliance with the Financial Management is being carried out. This assessment will review the processes in place to satisfy the principles of good financial management and identify any significant governance issues

7.3 Findings of this assessment will be reported to Audit Committee in July 2021.

AUDIT COMMITTEE

DATE OF MEETING: 7th DECEMBER 2021

TITLE OF REPORT: AUDIT RESULTS REPORT 2020/21

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 2020/21 Statement Accounts.

2. OFFICER RECOMMENDATION

2.1 That Members agree to any uncorrected misstatements in 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 substantially completed the majority of their work on the audit of the Council's 2020/21 Statement of Accounts. 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 attend the meeting via Teams 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 Draft Audit results report

Year ended 31 March 2021
22 November 2021

Page 37



22 November 2021



Hart District Council
Civic Offices
Harlington Way
Fleet GU51 4AE

Dear Audit Committee Members

2021 Audit results report

We are pleased to attach our audit results report, summarising the status of our audit for the forthcoming meeting of the Audit Committee. We will update the Audit Committee at its meeting scheduled for 07 December 2021 on further progress to that date and explain the remaining steps to the issue of our final opinion.

The audit is designed to express an opinion on the 2021 financial statements and address current statutory and regulatory requirements. This report contains our findings related to the areas of audit emphasis, our views on Hart District Council's accounting policies and judgements and material internal control findings. Each year sees further enhancements to the level of audit challenge and the quality of evidence required to achieve the robust professional scepticism that society expects. We thank the management team for supporting this process.

This report is intended solely for the information and use of the Audit Committee, other members of the Council and senior management. It is not intended to be and should not be used by anyone other than these specified parties.

We welcome the opportunity to discuss the contents of this report with you at the Audit Committee meeting on 07 December 2021.

Yours faithfully

Kevin Suter

Associate Partner

For and on behalf of Ernst & Young LLP

Encl

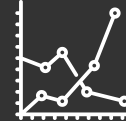
Contents

01 Executive Summary

02 Areas of Audit Focus

03 Audit Report

04 Audit Differences



05 Value for Money

06 Other Reporting Issues

07 Assessment of Control Environment

08 Data Analytics

09 Independence

10 Appendices

Public Sector Audit Appointments Ltd (PSAA) issued the "Statement of responsibilities of auditors and audited bodies". It is available from the PSAA website (<https://www.psa.co.uk/audit-quality/statement-of-responsibilities/>). The Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

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

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



01

Executive Summary

Executive Summary

Scope update

In our audit planning report presented at the 25th May Audit Committee meeting, we provided you with an overview of our audit scope and approach for the audit of the financial statements. We updated our planning materiality assessment using the draft financial statements and have also reconsidered our risk assessment. Based on our materiality measure of 2% of gross expenditure on provision of services and 75% of planning materiality, our year-end testing is completed to the levels noted in the table below.

Materiality - Council	Audit Plan	Draft Financial Statements
Planning	£926k	£849k
Performance	£694k	£637k
Reporting	£46k	£42k

Executive Summary

Scope Update

Changes to reporting timescales

As a result of COVID-19, new regulations, the Accounts and Audit (Amendment) Regulations 2021 No 263, have been published and came into force on 31 March 2021. This announced a change to publication date for final, audited accounts from 31 July to 30 September 2021 for all relevant authorities.

Additional audit procedures as a result of Covid-19

Other changes in the entity and regulatory environment as a result of Covid-19 that have not resulted in an additional risk, but result in the following impacts on our audit strategy were as follows:

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 Council'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

Agreed IPE to scanned documents or other system screenshots.

Page
42

Status of the financial statements audit

Our audit work in respect of the Council opinion is substantially complete. As at the date of writing this report, we have now received the amended version of accounts and we are in the process of reviewing the adjustments to complete our final procedures and ensure all audit adjustments have been processed as appropriate. We recognise that there have been delays during the audit due to various factors including staff sickness/planned absences, external valuer's delays.

Details of each outstanding item, actions required to resolve and responsibility is included in Appendix B.

Given that the audit process is still ongoing, we will continue to challenge the remaining evidence provided and the final disclosures in the Narrative Report and Accounts which could influence our final audit opinion, a current draft of which is included in Section 3.

Executive Summary

Auditor responsibilities under the new Code of Audit Practice 2020

Under the Code of Audit Practice 2020 we are still required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources. The 2020 Code requires the auditor to design their work to provide them with sufficient assurance to enable them to report to the Council a commentary against specified reporting criteria (see below) on the arrangements the Council has in place to secure value for money through economic, efficient and effective use of its resources for the relevant period.

The specified reporting criteria are:

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

Progress Report Status of the audit - Value for Money

We have previously reported to the Committee the changes in the arrangements to the VFM for 2020/21. We are currently completing our work and assessing the Council against the three sub-criteria. This includes arranging meetings with senior officers to understand in detail the arrangements in place. As at the date of this report we are not reporting any significant weakness in arrangements. However, we will inform the Committee should we identify any risk of significant weakness during our procedures in line with the updated requirements of Code of Audit Practice 2020.

We note that we have also received an objection on the financial statements of the Council which is currently under review as we wait for responses to follow-up queries from management. We will consider the information outlined in the objection and the response from the Council to assess the overall impact this may have on our value for money risk assessment.

We will provide an update at the Audit Committee meeting on our progress. This update will also include the timelines for receipt of the VFM Commentary which will include details against each of the three sub-criteria.

Objections

We have received an objection to the 2020/21 accounts from members of the public.

We are currently assessing this objection and seeking legal advice as appropriate. We have requested a response to our follow-up queries from the Council as part of our procedures which we will evaluate together with the Value for Money implications. This means that we cannot issue our opinion due to the potential impact or conclude our work on value for money arrangements.

Executive Summary

Audit differences

As at the date of this report, we are reporting 2 corrected misstatements for the Council which are above our performance materiality of £637k:

- reclassification of Civic offices from Investment Property (IP) to Property, Plant and Equipment (PPE) of £2.9m;
- an adjustment in the treatment of Local Restrictions Support Grant (LRSO Open), Local Authority Discretionary Fund and Additional Restricted Grant from agent to principal for the total amount of £3.7m; and

We would also like to note that there were amendments arising out of our challenge to the external valuer which are discussed in Section 2 of the report. The main impact was noted on two assets where purchasers' cost was not deducted appropriately and led to downward valuation of £468k.

There is currently 1 uncorrected misstatement greater than our reporting threshold for uncorrected misstatements of £42k. This relates to purchasers' cost amendment by the external valuer not being deducted at the market level expected as at 31/03/2021 and has an overall impact of £66k across two assets.

There have been a few presentational and disclosure amendments which we have identified and have been corrected by management.

See Section 4 of this report for further details of the differences. We will also provide an update at the Audit Committee meeting and a final position at the conclusion of the audit.

Page 44

Other reporting issues

As part of our procedures, we review the information presented in the Annual Governance Statement for consistency with our knowledge of the Council. The objection received may impact on the information within the Annual Governance Statement, therefore, we cannot complete the procedures until the objection is determined.

We have not yet performed the procedures required by the National Audit Office (NAO) on the Whole of Government Accounts (WGA) submission. Officers are not expected to receive the final guidance supporting the WGA submission until December 2021. Therefore, our work on WGA will begin once the guidance is available. We have no other matters to report.



Executive Summary

Areas of audit focus

In our Audit Plan we identified a number of key areas of focus for our audit of the financial report of Hart District Council. This report sets out our observations and status in relation to these areas, including our views on areas which might be conservative and areas where there is potential risk and exposure. Our consideration of these matters and others identified during the period is summarised within the "Areas of Audit Focus" section of this report.

We request that you review these and other matters set out in this report to ensure:

- ▶ There are no residual further considerations or matters that could impact these issues
- ▶ You concur with the resolution of the issue
- ▶ There are no further significant issues you are aware of to be considered before the financial report is finalised

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

Page 45

Control observations

During the audit, we identified two deficiencies in internal control, which are highlighted in Section 7 of this report.

The first relates to Section 106 contracts where a debtor was raised by the Council when a trigger point for payment was believed to be completed. However, we noted that this was not achieved at the point debtor was recognised. Robust monitoring of trigger points was also raised as a recommendation during the internal audit review of Section 106 agreements and management have responded to the recommendations raised.

The other point relates to delay in posting invoices/credit notes in the general ledger.

Independence

In our Audit Plan presented at the 25 May Audit Committee meeting we did not identify any independence issues.

There are no updates to report. Please refer to Section 9 for further information.



02 Areas of Audit Focus



Areas of Audit Focus

Significant risk

We have set out the significant risks (including fraud risks denoted by*) identified for the current year audit along with the rationale and conclusions.

Misstatements due to fraud or error*

What is the risk?

The financial statements as a whole are not free of material misstatements whether caused by fraud or error.

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

What judgements are we focused on?

How management address to the risk of material misstatement due to fraud or error through the policies and procedures put in place at the Council.

What did we do?

We:

- ▶ Enquired of 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.
- ▶ Performed mandatory procedures regardless of specifically identified fraud risks, including testing of journal entries and other adjustments in the preparation of the financial statements.
- ▶ Reviewed accounting estimates for evidence of management bias.
- ▶ Evaluated the business rationale for significant unusual transactions.

What are our conclusions?

We have not identified any:

- ▶ material weaknesses in controls or evidence of material management override;
- ▶ instances of inappropriate judgements being applied; or
- ▶ other transactions during our audit which appear unusual or outside the Council's normal course of business.

We noted a delay in posting credit notes to the general ledger during our journal entry testing which we have raised as a control observation in Section 7 of the report.



Areas of audit focus

Significant risk

Inappropriate capitalisation of revenue expenditure due to fraud or error*

Page 48

What is the risk?

Under ISA240 there is also a presumed risk that revenue may be misstated due to improper recognition of revenue. In the public sector, this requirement is modified by Practice Note 10, issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition.

From our risk assessment, we have assessed that the risk manifests itself solely through the inappropriate capitalisation of revenue expenditure to improve the financial position of the general fund.

What judgements are we focused on?

How management decides on appropriate capitalisation of revenue expenditure, including consideration of REFCUS.

What did we do?

We sample tested 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.

We also sample tested REFCUS in line with the audit plan to check that these have been recorded appropriately.

What are our conclusions?

Our testing in this area is complete and we have no material findings to bring to your attention.

Journal testing - our testing of Journals to identify high risk transactions, such as items originally recorded as revenue expenditure and subsequently capitalised is also complete. We have not noted any material issues in this area to bring to your attention.



Areas of audit focus

Other areas of audit focus

We have identified other areas of the audit, that have not been classified as significant risks, but are still important when considering the risks of material misstatement to the financial statements and disclosures and therefore may be matters that we report on

What is the risk/area of focus?	What did we do?
---------------------------------	-----------------

Valuation of Property, Plant and Equipment (PPE) and Investment Property (IP)	Our work on valuations is complete subject to reviewing agreed changes to the final set of accounts.
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The value of Property, Plant and Equipment (PPE) and Investment Property (IP) represent significant balances in the Council's accounts and are subject to valuation changes, impairment reviews and, for PPE, depreciation charges. Management is required to make material judgements and apply estimation techniques to calculate the year-end balances recorded 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. Covid-19 brought additional uncertainties with regards to valuations in 2020 and we will continue to assess the impact of Covid-19 on the valuation of PPE and IP as at 31 March 2021 given the wider impact on the economy at a high inherent risk.

We:

- ▶ 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;
- ▶ Considered the annual cycle of valuations to ensure that assets have been valued within a 5 year rolling programme as required by the Code for PPE and annually for IP. We also considered if there are any specific changes to assets that have occurred and whether these have been communicated to the valuers;
- ▶ Reviewed PPE assets not subject to valuation in 2020/21 to confirm that the remaining asset base is not materially misstated;
- ▶ Considered the potential impact of Covid-19 on valuation uncertainties;
- ▶ Considered changes to useful economic lives as a result of the most recent valuation; and
- ▶ Tested accounting entries have been correctly processed in the financial statements.

Throughout our work on valuation of PPE and IP, we evaluated the potential impact of Covid-19 on valuation uncertainties by challenging assumptions and methodology used by the external valuers.

Continued on next page.



Areas of audit focus

Other areas of audit focus

What is the risk/area of focus?

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

Continued from previous page

What did we do? (Continued)

As part of our testing, we challenged the valuer on the following points:

- 1) The valuer made an error in the area used for Frogmore Leisure Centre's hockey pitch. This resulted in an increase in the value of the asset of £133k.
- 2) We challenged the valuer's methodology around purchasers' cost and it was agreed that these were not appropriately deducted from assets valued. The main impact was on two properties which led to a cumulative reduction in their value of £468k. We also note that the amended purchasers' cost were not calculated at the current market rate by the external valuer. This led to a further uncorrected variance of £66k reported in Section 4 of this report.
- 3) The valuer's report incorrectly classified Civic offices as an investment property (IP) whereas it is mainly held for operational use and therefore should be within property, plant and equipment (PPE). This led to a reclassification of £2.9m from IP to PPE.
- 4) The valuer has used agricultural land values for the entire area of two leisure centres however as per RICS guidance and methodology, including our internal valuation team's input from prior year review and current year discussions, we view that the valuer should use commercial land value for built up areas and agricultural land values for non-built up area. While we note that the overall values of the two leisure centres are within the expected range, albeit at the lower end of the range, we have flagged this with the valuer for consideration in the future years.

We note that there are had been some delays in obtaining the required information. We will include this in our post-audit wash up discussion with officers to ensure we can have a smoother audit process in the coming year including further scrutiny of valuer's approach and methodology by management.



Areas of audit focus

Other areas of audit focus

What is the risk/area of focus?

Ongoing Covid-19 implications, including ISA 570 Going Concern and Disclosure considerations

There is a presumption that the Council will continue as a going concern for the foreseeable future based on the continued provision of public services. However, the Council is required to carry out a going concern assessment that is proportionate to the risks it faces. In light of the continued impact of Covid-19 on its income sources, there is a need for the Council to ensure its going concern assessment, including its cashflow forecast, is thorough and appropriately comprehensive.

The Council is then required to ensure that disclosures within the statement of accounts adequately reflects its going concern assessment and in particular highlights any uncertainties it has identified.

We consider the unpredictability of the current environment, gives rise to a risk that the Council will not appropriately disclose the key factors relating to going concern, underpinned by management's assessment with particular reference to Covid-19.

What did we do?

We are required to meet the requirements of the revised auditing standard on going concern (ISA 570) and consider the adequacy of the Council's going concern assessment and its disclosure in the accounts by:

- Challenging management's identification of events or conditions impacting going concern.
- Testing management's resulting assessment of going concern by evaluating supporting evidence (including consideration of the risk of management bias).
- Reviewing the Council's cashflow forecast covering the foreseeable future, to ensure that it has sufficient liquidity to continue to operate as a going concern.
- Undertaking a 'stand back' review to consider all of the evidence obtained, whether corroborative or contradictory, when we draw our conclusions on going concern.
- Challenging the disclosure made in the accounts in respect of going concern.

We discussed the detailed implications of the revised auditing standard with finance staff and noted the information provided in the committee papers, budget and the Medium Term Financial Strategy (MTFS) in support of the going concern disclosure.

We have received an assessment of the Council's going concern basis of preparation of accounts. We will conclude on this area ahead of completing the audit to ensure our assessment considers at least the status for 12 months from the date of signing the accounts. However, we have nothing to draw to your attention at the date of preparing this report.



Areas of audit focus

Other areas of audit focus

What is the risk/area of focus?

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 liability be disclosed on the Council's balance sheet. At 31 March 2020 this totalled £27.88 million. The information disclosed is based on the IAS 19 report issued to the Council by the actuary to the County Council.

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

Accounting for Covid-19 grants

Central Government have provided a number of new and different Covid-19 related grants to local authorities during the year. There are also funds that have been provided for the Council to disseminate to other bodies.

The Council needs to review each of these to establish the correct accounting treatment. It needs to assess whether it is acting as a principal or agent, with the accounting to follow that decision. For those where the decision is a principal, it also needs to assess whether there are any outstanding conditions that may also affect the recognition of the grants as revenue during 2020/21.

What did we do?

We have completed our procedures as per our audit plan and did not identify any material differences to report.

We noted that a new issue arose in the current year due to the impact of revised ISA 540. This was consistent across all local government audits that needed to be resolved prior to us being able to fully conclude our work. We planned to take an audit approach to this estimate based on procedures to evaluate management's process. The new auditing standard requires auditors to test the method of measurement of accounting estimates to determine whether the model is appropriately designed, consistently applied and mathematically accurate, and that the integrity of the assumptions and the data has been maintained in applying the model. Neither we, nor PWC as consulting actuaries commissioned by the NAO for all local government sector audits, are able to access the detailed models of the actuaries in order to evidence these requirements. Therefore, we modified our planned approach and undertook alternate procedures to create an auditor's estimate, to provide a different method of gaining assurance. The calculated liability was within our expected range. Therefore, we have no material differences to report in this area.

We considered the Council's judgement on material grants received in relation to whether it is acting as:

- An Agent, where it has determined that it is acting as an intermediary; or
- A Principal, where the Council has determined that it is acting on its own behalf.

We had experienced delays in receiving the requested information as this was a new area in the current year, however we have completed our review of the treatment of each material grant as agent or principal in line with our planning report. We also compared this with the wider benchmarking exercise across our clients and raised a number of points of clarification with officers. We noted the following variances which were amended by the Council:

- LRSO (open) scheme was incorrectly classified as agent due to it being one grant (LRSO) split into two schemes - open and closed - with different treatments for both schemes. The amount received by the Council was £201k.
- Local Authority Discretionary Grant Funding (LADGF), Additional Restrictions Grant (ARG) and £59k of Self Isolation Grant were incorrectly recorded as agent whereas the Council has discretion over its use which should result in classification as principal. Total amount of the LADGF was £700k and ARG was £2.8m.



03 Audit Report



Audit Report

Draft audit report 20-21

The report below is our draft version. In particular 'Matters on which we report by exception' can only be concluded when the objection is completed.

Our draft 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 2021 under the Local Audit and Accountability Act 2014. The financial statements comprise the:

- Comprehensive Income and Expenditure Statement
- Movement in Reserves Statement,
- Balance Sheet,
- Cash Flow Statement,
- the related notes 3.01 to 3.14, 4, 5.01 to 5.17, 6.01 to 6.04 and 7.01 to 7.08, and,
- Collection Fund and the related notes 8.1 to 8.2

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 2020/21.

In our opinion the financial statements:

- give a true and fair view of the financial position of Hart District Council as at 31 March 2021 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 2020/21.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the Council 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

In auditing the financial statements, we have concluded that the Head of Corporate Services and s151 Officer's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the authority's ability to continue as a going concern for a period of twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the Head of Corporate Services and s151 Officer with respect to going concern are described in the relevant sections of this report. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the authority's ability to continue as a going concern.



Audit Report

'Matters on which we report by exception' can only be concluded when the objection is completed.

Our draft opinion on the financial statements

Other information

The other information comprises the information included in the Statement of Accounts 2020/21, other than the financial statements and our auditor's report thereon. The Head of Corporate Services and s151 Officer is responsible for the other information contained within the Statement of Accounts 2020/21.

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.

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 course of 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 themselves. 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.

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;
- ▶ we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014;
- ▶ we are not satisfied that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2021.

We have nothing to report in these respects



Audit Report

'Matters on which we report by exception' can only be concluded when the objection is completed.

Our draft opinion on the financial statements

Responsibility of the Head of Corporate Services and s151 Officer

As explained more fully in the Statement of Responsibilities set out on page 14, the Head of Corporate Services and 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 2020/21, and for being satisfied that they give a true and fair view and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Head of Corporate Services and 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. 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.

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect irregularities, including fraud. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management.



Audit Report

'Matters on which we report by exception' can only be concluded when the objection is completed.

Our draft opinion on the financial statements

We obtained an understanding of the legal and regulatory frameworks that are applicable to the council and determined that the most significant are:

- Local Government Act 1972,
- Local Government Finance Act 1988 (as amended by the Local Government Finance Act 1992),
- Local Government Act 2003,
- The Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 as amended in 2018 and 2020,
- The Local Audit and Accountability Act 2014, and
- The Accounts and Audit Regulations 2015.

In addition, the council has to comply with laws and regulations in the areas of anti-bribery and corruption, data protection, employment legislation, tax legislation, general power of competence, procurement and health & safety.

We understood how Hart District Council is complying with those frameworks by understanding the incentive, opportunities and motives for non-compliance, including inquiring of management, head of internal audit, and those charged with governance and obtaining and reading documentation relating to the procedures in place to identify, evaluate and comply with laws and regulations, and whether they are aware of instances of non-compliance. We corroborated this through our reading of the council's committee minutes, through enquiry of employees to confirm council policies, and through the inspection of other information. Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations. Our procedures had a focus on compliance with the accounting framework through obtaining sufficient audit evidence in line with the level of risk identified and with relevant legislation.

We assessed the susceptibility of the council's financial statements to material misstatement, including how fraud might occur by understanding the potential incentives and pressures for management to manipulate the financial statements, and performed procedures to understand the areas in which this would most likely arise. Based on our risk assessment procedures, we identified, inappropriate capitalisation of revenue expenditure and management override of controls to be our fraud risks.

To address our fraud risk of inappropriate capitalisation of revenue expenditure we tested the council's capitalised expenditure to ensure the capitalisation criteria were properly met and the expenditure was genuine.

To address our fraud risk of management override of controls, in common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk. We tested the appropriateness of journal entries and other adjustments; assessed whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluated the business rationale of any identified significant transactions that were unusual or outside the normal course of business.

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.



Audit Report

'Matters on which we report by exception' can only be concluded when the objection is completed.

Our draft opinion on the financial statements

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 reporting criteria issued by the Comptroller and Auditor General (C&AG) in April 2021, as to whether Hart District Council had proper arrangements for financial sustainability, governance and improving economy, efficiency and effectiveness. The Comptroller and Auditor General determined these criteria as those 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 2021.

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.

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.

[OR]

Delay in certification of completion of the audit

We cannot formally conclude the audit and issue an audit certificate until we have completed the work necessary to issue our assurance statement in respect of the Authority's Whole of Government Accounts consolidation pack. We are satisfied that this work does not have a material effect on the financial statements or our work on value for money arrangements.

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 the Council and the Council's 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
Date



04 Audit Differences





Audit Differences

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

Summary of adjusted differences

We highlight the following misstatements greater than performance materiality of £637k which have been corrected by management that were identified during the course of our audit:

- ▶ Reclassification of Civic offices from Investment Property (IP) to Property, Plant and Equipment (PPE) of £2.9m;
- ▶ An adjustment in the treatment of Local Restrictions Support Grant (LRSO Open) (£0.2m), Local Authority Discretionary Fund (£0.7m) and Additional Restricted Grant (£2.8m) from agent to principal for the total amount of £3.7m; and

We would also like to note that there were amendments arising out of our challenge to the external valuer which are discussed in detail in Section 2 of the report which we have included in this section from a qualitative perspective. The main impact was noted on two assets where purchasers' cost was not deducted appropriately and led to downward valuation of £468k.

We also noted some disclosure differences that will be amended by the finance team.

Summary of unadjusted differences

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



Audit Differences

Uncorrected misstatements 31 March 2021 (£'000)			Effect on the current period:		Net assets (Decrease)/Increase			
			OCI Debit/(Credit)	Comprehensive Income and Expenditure Statement Debit/(Credit)	Assets current Debit/ (Credit)	Assets non current Debit/ (Credit)	Liabilities current Debit/ (Credit)	Liabilities non- current Debit/ (Credit)
Errors								
Known differences:								
This relates to purchasers' cost amendment by the external valuer not being deducted at the market level expected as at 31/03/2021 and has an overall impact of £66k across two assets.				£66		(£66)		
Balance sheet totals			-	-	0	(£66)	0	0
Income effect of uncorrected misstatements								
Cumulative effect of uncorrected misstatements before turnaround effect			£0	£66	£0	(£66)	£0	£0
Turnaround effect. Note 1: turnaround effect is the post-tax impact of uncorrected misstatements related to the prior period, on results of the current period. This was due to purchasers' cost not being deducted from an investment property in the prior year.				£283				
Cumulative effect of uncorrected misstatements, after turnaround effect			£0	£349	£0	(£66)	£0	£0

As we review the amended version of financial statements, it is possible that further amendments may arise. We will provide an update at the Audit Committee meeting and a final position at the conclusion of the audit.



05

Value for Money



Value for money

The Council's responsibilities for value for money (VFM)

The Council is required to maintain an effective system of internal control that supports the achievement of its policies, aims and objectives while safeguarding and securing value for money from the public funds and other resources at its disposal.

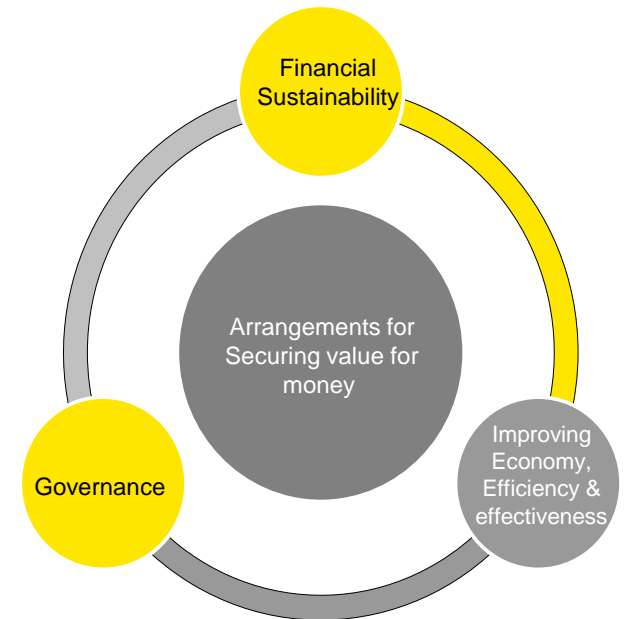
As part of the material published with its financial statements, the Council is required to bring together commentary on its governance framework and how this has operated during the period in a governance statement. In preparing its governance statement, the Council tailors the content to reflect its own individual circumstances, consistent with the requirements set out in the CIPFA code of practice on local authority accounting. This includes a requirement to provide commentary on its arrangements for securing value for money from their use of resources.

Risk assessment

We have previously reported to the Committee the changes in the arrangements to the VFM for 2020/21. We are currently completing our assessment and reviewing the Council's arrangements against the three sub-criteria. This includes meetings with senior officers to understand in detail the arrangements in place. As at the date of this report we are not reporting any significant weakness in arrangements. However, we will inform the Committee should we identify any risk of significant weakness during our assessment procedures in line with the updated requirements of Code of Audit Practice 2020.

We note that we have also received an objection on the financial statements of the Council which is currently under review as we wait for a response to our follow-up queries from management. We will consider the information outlined in the objection and the response from the Council to assess the overall impact this may have on our value for money assessment.

We will provide an update at the Audit Committee meeting on our progress. This update will also include the timelines for receipt of the VFM Commentary which will include details against each of the three sub-criteria.





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 2020/21 with the audited financial statements

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

Financial information in the Statement of Accounts 2020/21 and published with the financial statements was consistent with the audited financial statements.

The objection received includes reference to information within the Annual Governance Statement. Therefore, we are in the process of reviewing the Annual Governance Statement and will provide an update at the next Audit Committee meeting.

Whole of Government Accounts

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

We have been made aware that the system as well as guidance to complete this will not be available until December 2021. Therefore we are currently unable to commence our work on the Whole of Government Accounts.

Other reporting issues

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 are currently in the process of reviewing the objection received on the statement of accounts, which has requested us to consider issuing a report in the public interest. We will provide an update at the Audit Committee meeting.

Other matters

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

- Significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures;
- Any significant difficulties encountered during the audit;
- Any significant matters arising from the audit that were discussed with management;
- Written representations we have requested;
- Expected modifications to the audit report;
- Any other matters significant to overseeing the financial reporting process;
- Findings and issues around the opening balance on initial audits (if applicable);
- Related parties;
- External confirmations;
- Going concern;
- Consideration of laws and regulations; and
- Group audits

As at the date of this report we have nothing that we need to bring to the attention of the Audit Committee in respect of Other Matters except:

- We note that there is a difference of approx. £120k that is currently being reviewed and relates to indexation on the joint waste contract. The independent reviewer's report contains a recommendation to review the indexation figure for 19/20 and also charge Basingstoke and Deane Borough Council for any outstanding indexation amounts. The work on this area is ongoing by the Council and will be reviewed once complete.
- There were 5 declaration of interest returns from Councillors/senior offices that were outstanding at the time of completing our procedures. We have performed alternate procedures and did not identify any material risks of undisclosed related parties.



07

Assessment of Control Environment

Assessment of Control Environment

Financial controls

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

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 noted two areas to bring to your attention below.

Area	Section 106	Rating	Medium
Observation	During our audit procedures, we noted that a debtor of £391k was raised before completion of the milestone required to trigger receipt of Section 106 amount. We note that robust monitoring of trigger points was also raised as a recommendation during the internal audit review of Section 106 agreements in the current year and management have responded to the recommendations raised. While a credit note was raised by the Council and the debtor has been reversed following our audit procedures, we believe this is an area of improvement for the future.		
Impact	Reversal of £391k debtor in the financial statements		
Management comment	Trigger will points be recorded in the Section 106 monitoring spreadsheet and be monitored via the quarterly monitoring process.		

Page 68

Assessment of Control Environment

Area Posting of invoices/credit notes

Rating Medium

Observation

- 1) During our journal entry testing, we noted that there was a delay in posting credit notes for invoices raised in error (e.g. due to incorrect address). In both cases the credit notes were issued in January/March 2020 and therefore related to FY 19/20 but posted to the GL in November 2020 and accounted under FY 20/21.
- 2) A correction of the waste contract charge was identified by the Council related to charges until FY 2020/21. This was supported through a reconciliation exercise by an external independent reviewer with a total impact of £950k on the I&E. This was also picked up during our current year testing of income and expenditure transactions.
This difference was partly due to delays in raising invoices, and the independent reviewer noted that recharges to Basingstoke were not always done on a monthly basis.

Page 69
Impact

A delay in posting to the general ledger could lead to income/expenditure not being appropriately recognised in the correct year. As the amount of the two invoices in point 1 above was not material a back-posting to prior period ledger was not considered necessary.

However, the impact of difference highlighted in point 2 above currently has an impact of £950k on the I&E and there could be further difference of approx. £120k which is being investigated as reported in 'Other Matters' in Section 6 of this report.

Therefore, for best practice, we would encourage the finance team to post entries to the GL following appropriate approvals in a timely manner.

Management comment

Accounts Receivable was part of Capita during FY 2020/21, and this has transferred over to Hart on 01 April 2021.

Further work is underway to review the indexation charges on the waste contract.



08 Data Analytics



Management Override of Controls

What is the risk?

In line with ISA 240 we are required to test the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements.

Page 14

What judgements are we focused on?

We review journals by certain risk based criteria to focus on higher risk transactions, such as journals posted manually by management, those posted around the year-end to adjust the general ledger, those with unusual debit and credit relationships, and those posted by individuals we would not expect to be entering transactions.

The purpose of this approach is to provide a more effective, risk focused approach to auditing journal entries, minimising the burden of compliance on management by minimising randomly selected samples and focusing on higher risk areas.

What did we do?

We obtained general ledger journal data for the period and have used our analysers to identify characteristics typically associated with inappropriate journal entries or adjustments, and journals entries that are subject to a higher risk of management override.

We then performed tests on the journals identified to determine if they were appropriate and reasonable.

What are our conclusions?

At the date of writing this report and following completion of our procedures we have no material differences to report in this area.

Hart District Council 31 March 2021

The graphic outlined below summarises the journal population for 2020/21. We isolated a sub set of journals for further investigation and obtained supporting evidence to verify the posting of these transactions included in our data subset.

EY Helix - GLASS: Journal Entry Data Insights - 21 Hart District Council - 31/03/2021

Facts and Figures

Number of Journals Posted:
15,519

Average Number of Journals Posted per Day:
57

Average Number of Lines per Journal:
7

Operational Efficiencies

Manual Journals Posted at weekend:
8

Manual journals where gross amount is < £5:
206

Journal lines with zero value:
0

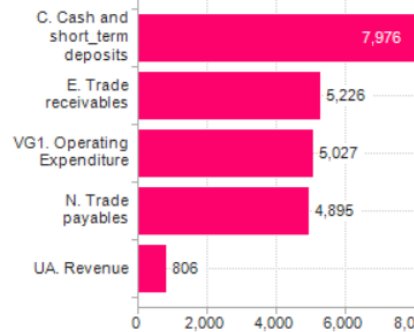
Manual v System by Volume



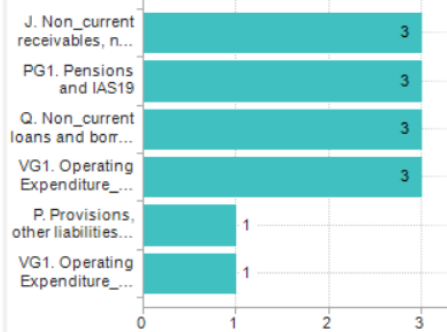
Manual v System by Value



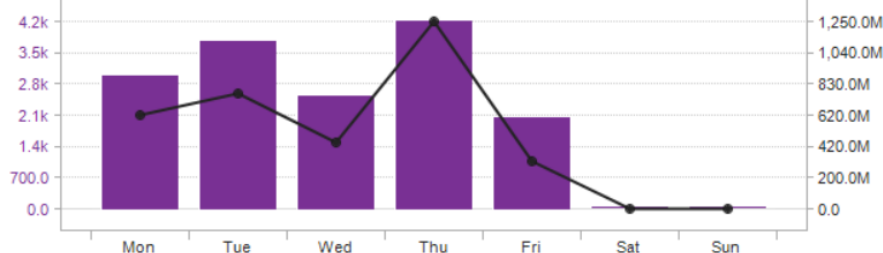
Top Five Activity Accounts



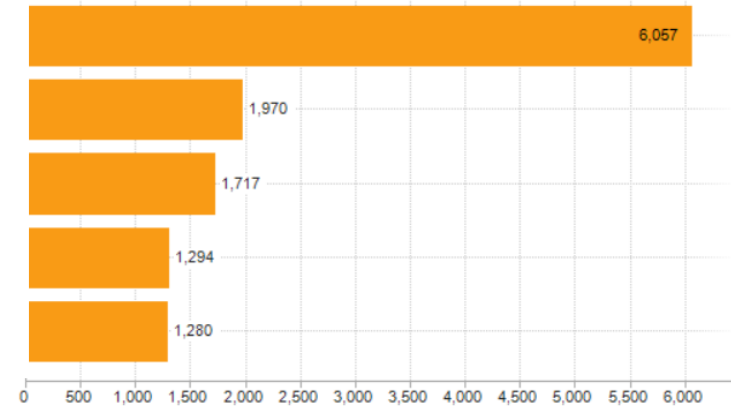
Bottom Five Activity Accounts



Days of the Week



Top Five Preparers



Bottom Five Preparers





Page 73

09

Independence

Relationships, services and related threats and safeguards

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

- There are no relationships from 01 April 2020 to the date of this report, which we consider may reasonably be thought to bear on our independence and objectivity. We are continuing to provide non-audit services as reporting accountant for your Housing Benefit Assurance Process (HBAP) to the DWP which is a permitted service.
- We believe that it is appropriate for us to undertake this permitted non-audit services set out in Section 5.40 of the FRC Ethical Standard 2019 (FRC ES), and we will comply with the policies that you have approved

Services provided by Ernst & Young

Description	Planned Fee 2020/21 £	Final Fee 2019/20 £
Audit Scale Fee - Code work	41,469	41,469
Scale fee variation - e.g. Covid-19, changes in work required to address professional and regulatory requirements and scope associated with risk (Note 1)	TBC	31,181
Impact of the New Code of Audit Practice, and revised ISA540 (Note 2)	TBC	n/a
Objection to the accounts	TBC	n/a
Total Code audit fee	TBC	72,650
Other non-audit services not covered above (Housing Benefits)	11,758	14,258
Total fees	TBC	86,908

Notes:

1. PSAA have determined the scale fee variation for 2019/20. The variation for 2020/21 will be completed, discussed with management and submitted to PSAA at the completion of the audit.
2. Additional fees are likely for 2020/21 for the ongoing changing risks associated with Covid-19, as set out within this report, and for the Objection.. PSAA have written to all local authorities to indicate a range of fees for the impact of the 2020 Code of Audit Practice and new auditing standards. We are currently unable to quantify the impact until the completion of the audit.

Other communications

EY Transparency Report 2020

Ernst & Young (EY) has policies and procedures that instil professional values as part of firm culture and ensure that the highest standards of objectivity, independence and integrity are maintained.

Details of the key policies and processes in place within EY for maintaining objectivity and independence can be found in our annual Transparency Report which the firm is required to publish by law. The most recent version of this Report is for the year end 30 June 2021:

[EY UK 2021 Transparency Report | EY UK](#)






10 Appendices

Appendix A

Required communications with the Audit Committee

There are certain communications that we must provide to the those charged with governance of UK entities. 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 presented at the 25 May Audit Committee meeting
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified. When communicating key audit matters this includes the most significant risks of material misstatement (whether or not due to fraud) including those that have the greatest effect on the overall audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team.	Audit planning report presented at the 25 May Audit Committee meeting
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 A

		Our Reporting to you
Required communications	What is reported?	When and where
Going concern	<p>Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:</p> <ul style="list-style-type: none"> ▶ Whether the events or conditions constitute a material uncertainty related to going concern ▶ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements ▶ The appropriateness of related disclosures in the financial statements 	Audit results report
Misstatements	<ul style="list-style-type: none"> ▶ Uncorrected misstatements and their effect on our audit opinion, unless prohibited by law or regulation ▶ The effect of uncorrected misstatements related to prior periods ▶ A request that any uncorrected misstatement be corrected ▶ Material misstatements corrected by management 	Audit results report
Subsequent events	<ul style="list-style-type: none"> ▶ Enquiry of the audit committee where appropriate regarding whether any subsequent events have occurred that might affect the financial statements. 	Audit results report

Appendix A

		Our Reporting to you
Required communications	What is reported?	When and where
Fraud	<ul style="list-style-type: none"> ▶ Enquiries of the audit committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity ▶ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist ▶ Unless all of those charged with governance are involved in managing the entity, 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
Related parties	<p>Significant matters arising during the audit in connection with the entity'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 entity 	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 	Audit planning report presented at the 25 May Audit Committee meeting, and Audit results report

Appendix A

		Our Reporting to you
Required communications	What is reported?	When and where
Page 80	<p>Communications whenever significant judgements are made about threats to objectivity and independence and the appropriateness of safeguards put in place.</p> <p>For public interest entities and listed companies, communication of minimum requirements as detailed in the FRC Revised Ethical Standard 2019:</p> <ul style="list-style-type: none"> ▶ Relationships between EY, the company and senior management, its affiliates and its connected parties ▶ Services provided by EY that may reasonably bear on the auditors' objectivity and independence ▶ Related safeguards ▶ Fees charged by EY analysed into appropriate categories such as statutory audit fees, tax advisory fees, other non-audit service fees ▶ A statement of compliance with the Ethical Standard, including any non-EY firms or external experts used in the audit ▶ Details of any inconsistencies between the Ethical Standard and Group's policy for the provision of non-audit services, and any apparent breach of that policy ▶ Where EY has determined it is appropriate to apply more restrictive rules than permitted under the Ethical Standard ▶ The audit committee should also be provided an opportunity to discuss matters affecting auditor independence 	
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. 	Audit results report
Consideration of laws and regulations	<ul style="list-style-type: none"> ▶ Subject to compliance with applicable regulations, matters involving identified or suspected non-compliance with laws and regulations, other than those which are clearly inconsequential and the implications thereof. Instances of suspected non-compliance may also include those that are brought to our attention that are expected to occur imminently or for which there is reason to believe that they may occur ▶ Enquiry of the 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 	Audit results report




Appendix A

		Our Reporting to you
Required communications	What is reported?	When and where
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
Written representations we are requesting from management and/or those charged with governance	<ul style="list-style-type: none"> ▶ Written representations we are requesting from management and/or those charged with governance 	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"> ▶ Key audit matters that we will include in our auditor's report ▶ Any circumstances identified that affect the form and content of our auditor's report 	Audit results report

Appendix B

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 
Annual Governance Statement (AGS) 20-21	EY to review the AGS to ensure that it is consistent with the Council and assess any impact of the Objection	EY and management
Review of final changes	<p>Management have now shared the amended draft version of accounts and EY to undertake review.</p> <p>We recognise that there have been delays during the audit due to various factors including staff sickness/planned absences, external valuer's delays.</p> <p>EY to review response to close down areas.</p>	EY and management
Going concern review and disclosures	EY to review Going Concern position to ensure coverage of 12 months from signing the opinion.	EY and management
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
Objection	Completion of the objection process	EY and management

Until all our audit procedures are complete, we cannot confirm the final form of our audit opinion as new issues may emerge or we may not agree on final detailed disclosures in the Statement of Accounts. At this point no issues have emerged that would cause us to modify our opinion. A draft of the current opinion is included in Section 3.

Draft Management Representation Letter

Draft Management Rep Letter

Ernst & Young LLP

Grosvenor House
Grosvenor Square
Southampton
Hampshire
SO15 2BE

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 31 March 2021. 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 31 March 2021 and of its income and expenditure for the year then ended in accordance with CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21.

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), which involves an examination of the accounting system, internal control and related data to the extent you considered necessary in the circumstances, and is not designed to identify - nor necessarily be expected to disclose - all fraud, shortages, errors and other irregularities, should any exist.

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

A. Financial Statements and Financial Records

1. We have fulfilled our responsibilities, under the relevant statutory authorities, for the preparation of the financial statements in accordance with the Accounts and Audit Regulations 2015 and CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21.

2. We acknowledge, as members of management of the 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 Council in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21. We have approved the financial statements.
3. The significant accounting policies adopted in the preparation of the financial statements are appropriately described in the financial statements.
4. 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 2020/21, that are free from material misstatement, whether due to fraud or error. We have disclosed to you any significant changes in our processes, controls, policies and procedures that we have made to address the effects of the COVID-19 pandemic on our system of internal controls.
5. We believe that the effects of any unadjusted audit differences, summarised in the accompanying schedule, accumulated by you during the current audit and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

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

1. We acknowledge that we are responsible to determine that the Council’s activities are conducted in accordance with laws and regulations and that we are responsible to identify and address any non-compliance with applicable laws and regulations, including fraud.
2. We acknowledge that we are responsible for the design, implementation and maintenance of internal controls to prevent and detect fraud.
3. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.

Management representation letter

Draft Management Rep Letter

4. 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, 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 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 Authority’s activities, its ability to continue to operate, or to avoid material penalties;
 - involving management, or employees who have significant roles in internal controls, or others; or
 - in relation to any allegations of fraud, suspected fraud or other non-compliance with laws and regulations communicated by employees, former employees, analysts, regulators or others.
2. All material transactions have been recorded in the accounting records and all material transactions, events and conditions are reflected in the financial statements.
3. We have made available to you all minutes of the meetings of the Full Council, Cabinet and Audit 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*.
4. 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 year end. These transactions have been appropriately accounted for and disclosed in the financial statements.
5. We believe that the methods, significant assumptions and the data we used in making accounting estimates and related disclosures are appropriate and consistently applied to achieve recognition, measurement and disclosure that is in accordance with CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21

C. Information Provided and Completeness of Information and Transactions

1. We have provided you with:
 - Access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
 - Additional information that you have requested from us for the purpose of the audit; and
 - Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
6. 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.
7. From the date of our last management representation letter (25 November 2020) 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.

Management representation letter

Draft Management Rep Letter

D. Liabilities and Contingencies

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

E. Going Concern

1. Note 7.08 to the financial statements discloses all the matters of which we are aware that are relevant to the Council's ability to continue as a going concern, including significant conditions and events, our plans for future action, and the feasibility of those plans.

F. Subsequent Events

1. Other than described in Note 5.16 to the financial statements, there have been no events, including events related to the COVID-19 pandemic, subsequent to period end which require adjustment of or disclosure in the financial statements or notes thereto.

G. Other information

1. We acknowledge our responsibility for the preparation of the other information. The other information comprises the Narrative Report and the Annual Governance Statement.
2. We confirm that the content contained within the other information is consistent with the financial statements.

H. Use of the Work of a Specialist

1. We agree with the findings of the specialists that we engaged to evaluate the valuation of property, plant and equipment, investment properties, and pension 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.

I. Estimates

1. We confirm that the significant judgments made in making the accounting estimates for the valuation of property, plant and equipment, investment properties, and the pension liability have taken into account all relevant information and the effects of the COVID-19 pandemic, of which we are aware.
2. We believe that the selection or application of the methods, assumptions and data used by us have been consistently and appropriately applied or used in making the estimates.
3. We confirm that the significant assumptions used in making the estimates appropriately reflect our intent and ability to carry out any relevant course of action on behalf of the entity.
4. We confirm that the disclosures made in the financial statements with respect to the accounting estimates, including those describing estimation uncertainty, are complete and are reasonable in the context of the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21.

Management representation letter

Draft Management Rep Letter

5. We confirm that appropriate specialized skills or expertise has been applied in making estimates.
6. We confirm that no adjustments are required to the accounting estimates and disclosures in the financial statements, including due to the COVID-19 pandemic.
- J. Retirement benefits**
 1. On the basis of the process established by us and having made appropriate enquiries, we are satisfied that the actuarial assumptions underlying the scheme liabilities are consistent with our knowledge of the business. All significant retirement benefits and all settlements and curtailments have been identified and properly accounted for.

Yours faithfully,

Head of Corporate Services and s151 Officer


Chairman of the Audit Committee

Appendix D

Implementation of IFRS 16 Leases

In previous reports to the Audit Committee, we have highlighted the issue of new accounting standards and regulatory developments. IFRS 16 introduces a number of significant changes which go beyond accounting technicalities. For example, the changes have the potential to impact on procurement processes as more information becomes available on the real cost of leases. The key accounting impact is that assets and liabilities in relation to significant lease arrangements previously accounted for as operating leases will need to be recognised on the balance sheet. IFRS 16 requires all substantial leases to be accounted for using the acquisition approach, recognising the rights acquired to use an asset.

IFRS 16 does not come into effect for the council until 1 April 2022. However, officers should be acting now to assess the council's leasing positions and secure the required information to ensure the council will be fully compliance with the 2022/23 Code. The following table summarises some key areas officers should be progressing.

IFRS 16 theme	Summary of key measures 
Data collection	Management should: <ul style="list-style-type: none"> ▶ Put in place a robust process to identify all arrangements that convey the right to control the use of an identified asset for a period of time. The adequacy of this process should be discussed with auditors. ▶ Classify all such leases into low value; short-term; peppercorn; portfolio and individual leases ▶ Identify, collect, log and check all significant data points that affect lease accounting including: the term of the lease; reasonably certain judgements on extension or termination; dates of rent reviews; variable payments; grandfathered decisions; non-lease components; and discount rate to be applied.
Policy Choices	The council needs to agree on certain policy choices. In particular: <ul style="list-style-type: none"> ▶ Whether to adopt a portfolio approach ▶ What low value threshold to set and agree with auditors ▶ Which asset classes, if any, are management adopting the practical expedient in relation to non-lease components ▶ What is managements policy in relation to discount rates to be used?
Code adaptations for the public sector	Finance teams should understand the Code adaptations for the public sector. The Code contains general adaptations, (e.g. the definition of a lease); transitional interpretations (e.g. no restatement of prior periods) and adaptations that apply post transition (e.g. use of short-term lease exemption).
Transitional accounting arrangements	Finance teams should understand the accounting required on first implementation of IFRS 16. The main impact is on former operating leases where the authority is lessee. However, there can be implications for some finance leases where the council is lessee; and potentially for sub-leases, where the council is a lessor, that were operating leases under the old standard.
Ongoing accounting arrangements	Finance teams need to develop models to be able to properly account for initial recognition and subsequent measurement of right of use assets and associated liabilities. This is more complex than the previous standard due to more regular remeasurements and possible modifications after certain trigger events.
Remeasurements and modifications	Finance teams need to familiarise themselves with when the 'remeasurement' or 'modification' of a lease is required and what to do under each circumstance. A modification can lead to an additional lease being recognised. It is also important to know when remeasurements require a new discount rate is to be applied to the lease.

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ED None

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AUDIT COMMITTEE

DATE OF MEETING: 7 DECEMBER 2021

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 2020/21 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 2020/21 were signed off in July by the Head of Corporate Services.

3.2 . Members should note that based on the work of the external audit so far, the 2020/21 accounts are expected to receive an unqualified opinion (i.e. the Council's financial records and statements are fairly and appropriately presented). Changes between the unaudited and audited version of the accounts 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 2020/21 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

2020/2021

CONTENTS**PAGE****Introduction**

- | | |
|----------------------------------|----|
| 1. Narrative Report | 3 |
| 2. Statement of Responsibilities | 14 |

Core Financial Statements:

- | | |
|---|----|
| 3. Comprehensive Income and Expenditure Statement | 15 |
| 4. Movement in Reserves Statement | 16 |
| 5. Balance Sheet | 18 |
| 6. Cash Flow Statement | 20 |

Notes to the Financial Statements

Page numbers for supplementary notes can be found on the next page

- | | |
|--|----|
| 3. Notes to the Comprehensive Income and Expenditure Statement | 21 |
| 4. Notes to the Movement in Reserves Statement | 36 |
| 5. Notes to the Balance Sheet | 39 |
| 6. Notes to the Cash Flow Statement | 84 |
| 7. Additional Notes to the Financial Statements | 88 |

Supplementary Financial Statements

- | | |
|--------------------|-----|
| 8. Collection Fund | 103 |
| 9. Group Accounts | 109 |

Glossary and Independent Auditor's Report

- | | |
|--|-----|
| 10. Glossary | 110 |
| 11. Independent Auditor's Report to the Members of Hart District Council | 119 |

Index of Notes to the Financial Statements

Note		Page
	Notes to the Comprehensive Income and Expenditure Statement	
3.01	Expenditure and Funding Analysis	21
3.02	Note to the Expenditure and Funding Analysis	22
3.03	Income and Expenditure Analysed by Nature	25
3.04	Other Operating Expenditure	26
3.05	Financing and Investment Income and Expenditure	26
3.06	Taxation and Non Specific Grant Incomes	27
3.07	Material Items of Income and Expense	27
3.08	Agency Services	28
3.09	Members Allowances	28
3.10	Officers Remuneration and Termination Benefits	29
3.11	External Audit Costs	31
3.12	Grant Income	32
3.13	Operating Leases	34
3.14	Construction Contracts	35
	Notes to the Movement in Reserves Statement	
4.01	Adjustments Between Accounting Basis and Funding Basis Under Regulations	36
	Notes to the Balance Sheet	
5.01	Property, Plant and Equipment	39
5.02	Investment Properties	47
5.03	Intangible Assets	48
5.04	Financial Instruments	50
5.05	Debtors	56
5.06	Cash and Cash Equivalents	56
5.07	Assets Held for Sale	57
5.08	Borrowing	58

Note		Page
	Notes to the Balance Sheet continued...	
5.09	Creditors	59
5.10	Provisions	59
5.11	Usable Reserves	60
5.12	Unusable Reserves	64
5.13	Capital Expenditure and Capital Financing	70
5.14	Finance Leases	72
5.15	Defined Benefit Pension Schemes	73
5.16	Events After the Balance Sheet Date	82
5.17	Grants Received in Advance	82
	Notes to the Cash Flow Statement	
6.01	Operating Activities	84
6.02	Investing Activities	85
6.03	Financing Activities	86
6.04	Reconciliation of Liabilities arising from Financing Activities	87
	Additional Notes	
7.01	Accounting Standards that have been Issued but have not yet been Adopted	88
7.02	Critical Judgements in Applying Accounting Policies	88
7.03	Assumptions made about the Future and Other Major Sources of Estimation Uncertainty	89
7.04	Related Party Transactions	92
7.05	Contingent Assets and Liabilities	93
7.06	Nature and Extent of Risks Arising from Financial Instruments	93
7.07	Further Accounting Policies	97
7.08	Going Concern	100

I NARRATIVE REPORT

I.01 INTRODUCTION

The Statement of Accounts summarises the financial performance for financial year 2020/21 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 2020/21 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.
- **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

I NARRATIVE REPORT

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.

1.02 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 97,000 residents and an estimated 40,410 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 12, Community Campaign Hart 10, Liberal Democrat Party 10, and one independent councillor.

The council is a multifunctional organisation. The 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 130 full-time equivalent employees. The council has a significant level of outsourced and shared services.

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.

I NARRATIVE REPORT

The 2021/22 Service Plan reflects the fundamental key strategies for the council: climate change, continued improvements in digitalisation, and commercial 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 1 April 2021 which include;

- Co-ordination of the council declared Climate Change Emergency across all Services
- Continued distribution of COVID-19 based grants,
- Providing support for businesses ensuring COVID safe environments
- Working with communities on post COVID recovery

Achievements in 2020/21

The council has made progress in a number of areas over the 2020/21 financial year. The majority relate to activities committed to in the 2017 – 2022 Corporate Plan in addition to responding to the COVID-19 situation. The pandemic necessitated the acceleration of digital implementation projects.

Achievements include:

- Building and opening a regionally renowned Mountain Bike Track at Edenbrook
- Insourced HR, Payroll and Community Safety Services.
- Distributing over £22m of government COVID grants to businesses and individuals in the district
- Winning 3 Green Flag / Green Heritage international awards for the delivery of quality green spaces. Green Flag Sites are an internationally recognised benchmark standard. This will be the 9th year in a row.
- Moving the council and all council services to agile and remote working.
- Facilitating online Committee Meeting and democratic decision making.
- Adoption of the Local Plan at the first 'virtual' meeting of the council.
- Creating the Hart Response Hub, to protect and support those shielding and help them with food and medicines.
- Ensuring all people homeless were 'brought in' and provided with social isolation payments if appropriate.
- Providing a range of discretionary social isolation and hardship payments and grants to the community and voluntary groups who were supporting the community during COVID-19

I NARRATIVE REPORT

I.05 FINANCIAL PERFORMANCE – REVENUE (including COVID compensation)

The council's actual outturn for 2020/21 was £831k higher than the budget. This will be reduced to a net nil spend after accruals, carry forwards and transfers from reserves.

Revenue Budget Outturn*	Revised Budget 2020/21 £000	Actual Expenditure 2020/21 £000	Variance 2020/21 £000
Corporate Services	4,806	5,398	592
Community Services	1,015	904	(111)
Place Services	2,180	1,914	(266)
Environment & Technical	3,083	3,652	569
Controllable Net Service Expenditure	11,084	11,868	784
Debt Interest and MRP	481	528	47
New Homes Bonus	(2,377)	(2,377)	0
	9,188	10,019	831

Page 98

The Comprehensive Income and Expenditure Statement (CIES) on Page 15 illustrates that Corporate Services Expenditure reduced from 2019/20 to 2020/21 by £3,307k. This is attributable to movements within various areas of Corporate Services, the main one being in Leisure Services. Gross Expenditure for Corporate Services for 2019/20 incurred an Impairment Charge in respect of the Leisure Centre of £3,485k, compared to an upwards Valuation of (£60k) in the 2020/21 accounts.

I NARRATIVE REPORT

I.06 CAPITAL BUDGET

The overall performance against the 2020/21 capital budget is shown in the table below:

Area	Approved Budget* 2020/21 £000	Actual Expenditure 2020/21 £000	Variance 2020/21 £000
Corporate Services	17,193	247	(16,946)
Community Place	579 24	649 0	70 (24)
Environment and Technical	4,582	438	(4,144)
	22,378	1,334	(21,044)

*Includes £2.356m carry forward from 2019/20

The main areas of variation contributing to the overall Net Underspend were as follows:

Corporate Services

The significant under performance is due to the deferral of the Capital Investment Programme, which can largely be attributed to the COVID Pandemic.

Community Services

The variation in expenditure is due to higher levels of the delivery of Disabled Facilities adaptations. This was expected and was funded by earmarked reserves.

Place Services

Planned expenditure in 2020/21 on a replacement Dog Warden Van was deferred until 2021/22.

I NARRATIVE REPORT

Environment and Technical Services

There is a significant underspend of £4.1m in this service area. The key variances being:

- An underspend in respect of Fleet Pond Green Engineering (£2.044m)
- An underspend on Fleet Pond Green Grid Ecology (£0.720m)
- Additional expenditure of £0.287m in respect of S106 Parish Projects; this has been funded from specific Earmarked Reserves.
- Additional expenditure of £0.50m in respect of Edenbrook Skate Park which has been funded from a carried forward reserve from 2019/20.

The capital programme for 2020/21 was financed as follows:

Financed By	2020/21 £000
Useable Capital Receipts	213
Developer's Contributions	317
Disabled Facilities Grant	645
Environment Agency	4
Earmarked Reserves	155
	1,334

1.07 PENSION LIABILITY

The application of International Accounting Standard (IAS) 19 has resulted in a pension liability of £30.061m shown in the Balance Sheet, an increase of £2.179m in the year.

I NARRATIVE REPORT

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.

I.08 FINANCIAL OUTLOOK

The council has not received Revenue Support Grant since 2018/19. The current outlook is uncertain due to delays in implementation of Fairer Funding and uncertainty of when New Homes Bonus will end.

Prior to COVID-19 the council was reliant on continuing housing development, increases in the council tax base, 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. 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 continue to have a significant financial impact on the council in 2021/22 and recovery will take place over a number of years. The council began to experience the impact of the outbreak 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 continue to suffer significant reductions in income in 2021/22 and beyond. The council's spending has also increased to cope with the outbreak. Whilst some COVID-19 financial support has been received from Government, it is unclear if this will continue past June 2021. This represents a financial risk to the council that will form part of future medium term financial planning.

I NARRATIVE REPORT

It should be noted that there is considerable uncertainty nationally about local government finance levels from 2022/23. The delayed Fair Funding Review 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	2021/22	2022/23	2023/24
	£000	£000	£000
Net Service Budget	10,536	11,910	12,704
SANG Expenditure	258		
Cost of Service	10,794	11,910	12,704
Debt Interest	12	12	0
MRP	506	351	0
New Homes Bonus	(1,847)	(800)	(500)
Other non-ringfenced grant	(199)	0	(199)
Pressures/(Savings)	600	141	300
Net Budget Requirement	9,766	11,705	12,305
Financed by:			
Retained Business Rates	(1,400)	(1,440)	(1,480)
Council Tax Income	(7,487)	(7,487)	(7,487)
Council Tax Increase	0	(205)	(410)
S106 Receipts	(53)	(53)	(53)
SANG Receipts	(258)	(258)	(258)
Commercial Income Target	(783)	(1,102)	(1,102)
Total Financing	(9,981)	(10,545)	(10,790)
(Surplus)/Deficit	(117)	1,160	1,515

I.09 FURTHER INFORMATION

I NARRATIVE REPORT

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

Page 104

I.10 INSPECTION AND AUDIT

Interested members of the public have the statutory right to inspect these accounts before the audit is completed. For the 2020/21 accounts, the inspection period is 1 July to 11 August 2021. These dates were advertised on the council's website.

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 2020/21 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 2021.

Signed
Date

Emma Victoria Foy, FCCA
Head of Corporate Services and S151 Officer

2.04 CHAIRMAN OF AUDIT COMMITTEE CERTIFICATE

I certify that the Statement of Accounts 2020/21 has received the full approval of Members.

Signed
Date

Chris Axam
Chairman, Audit Committee

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	2019/2020			2020/2021		
		Gross Expenditure	Gross Income	Net Expenditure	Gross Expenditure	Gross Income	Net Expenditure
		£000	£000	£000	£000	£000	£000
Community Services		4,350	(3,906)	444	4,068	(2,198)	1,870
Corporate Services		23,480	(15,251)	8,229	20,072	(15,628)	4,444
Place Services		3,844	(1,889)	1,955	6,033	(1,637)	4,396
Environmental and Technical Services		10,574	(9,961)	613	11,306	(8,916)	2,390
Cost of Services		42,248	(31,007)	11,241	41,479	(28,379)	13,100
Other Operating Expenditure	3.04	3,233	(90)	3,143	3,395	0	3,395
Financial & Investment Income	3.05	841	(364)	477	1,855	(543)	1,312
Taxation and non-specific grant income and expenditure	3.06	11,730	(26,735)	(15,005)	18,062	(35,387)	(17,325)
(Surplus) or Deficit on provision of services		58,052	(58,196)	(144)	64,791	(64,309)	482
(Surplus) or Deficit on the revaluation of property, plant and equipment assets				(3,554)			(1,954)
Remeasurement of the net defined benefit liability/(asset)				2,187			864
Other Comprehensive Income and Expenditure				(1,367)			(1,090)
Total Comprehensive Income and Expenditure				(1,511)			(608)

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.

2020/2021	General Fund Balance £000	Capital Receipts Reserve £000	Capital Grants Unapplied Account £000	Total Usable Reserves £000	Unusable Reserves £000	Total Council Reserves £000
Balance at 31 March 2020	22,556	595	11,534	34,685	(2,674)	32,011
Total Comprehensive Income and Expenditure	(482)	0	0	(482)	1,090	608
Adjustments between accounting basis and funding basis under regulation (Note 4.01)	10,392	(213)	(94)	10,085	(10,085)	0
Increase or (decrease) in year	9,910	(213)	(94)	9,603	(8,995)	608
Balance at 31 March 2021	32,466	382	11,440	44,288	(11,669)	32,619

4 MOVEMENT IN RESERVES STATEMENT

2019/2020	General Fund Balance £000	Capital Receipts Reserve £000	Capital Grants Unapplied Account £000	Total Usable Reserves £000	Unusable Reserves £000	Total Council Reserves £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	1,367	1,511
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	(3,724)	1,511
Balance at 31 March 2020	22,556	595	11,534	34,685	(2,674)	32,011

5 BALANCE SHEET STATEMENT

		31 March 2020	31 March 2021
	Note	£000	£000
Property, Plant & Equipment	5.01		
Other land and buildings		36,307	36,101
Vehicles, plant, furniture and equipment		1,155	1,236
Infrastructure assets		238	231
Community assets		4,014	4,077
Assets under construction		755	798
Surplus assets		42	0
		42,511	42,443
Investment properties	5.02	6,350	5,422
Intangible assets	5.03	8	0
Long term debtors	5.05	1,254	1,049
Long Term Assets		50,123	48,914
Short term investments	5.04	11,000	17,000
Short term debtors	5.05	5,051	16,632
Cash and cash equivalents	5.06	18,760	16,127
Current Assets		34,811	49,759

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 2020 and 2021 instead of short term creditors.

		31 March 2020	31 March 2021
	Note	£000	£000
Short term borrowing	5.08	(1,377)	(1,383)
Short term creditors	5.09	(7,247)	(20,651)
Provisions	5.10	(302)	(527)
Current Liabilities		(8,926)	(22,561)
Long term borrowing	5.08	(11,008)	(10,152)
Pension liability	5.15	(27,882)	(30,061)
Grants received in advance	5.17	(5,107)	(3,280)
Long Term Liabilities		(43,997)	(43,493)
Net Assets		32,011	32,619

5 BALANCE SHEET STATEMENT

	Note	31 March 2020 £000	31 March 2021 £000
Usable Reserves			
Earmarked reserves	5.11.1	16,176	25,556
General fund		6,380	6,910
Capital receipts		595	382
Capital grants unapplied		11,534	11,440
		34,685	44,288
Unusable Reserves			
Revaluation reserve	5.12.1	6,876	8,694
Capital adjustment account	5.12.3	18,588	16,282
Financial instrument adjustment account	5.12.4	(12)	(11)
Pension reserve	5.12.5	(27,803)	(29,981)
Collection fund	5.12.6	(255)	(6,502)
Accumulated absences	5.12.7	(68)	(151)
		(2,674)	(11,669)
Total Reserves		32,011	32,619

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 30 June 2021.

Signed Date.....

Emma Victoria Foy, FCCA
Head of Corporate Services and S151 Officer

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	2019/2020 £000	2020/2021 £000
Net surplus or (deficit) on the provision of services		144	(482)
Adjustments to net surplus or deficit on the provision of services for non-cash movements		6,788	13,868
Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities		(3,549)	(1,385)
Net cash flows from Operating Activities	6.01	3,383	12,001
Investing Activities	6.02	(3,230)	(5,645)
Financing Activities	6.03	(655)	(8,989)
Net increase or (decrease) in cash and cash equivalents		(502)	(2,633)
Cash and cash equivalents at the beginning of the reporting period		19,262	18,760
Cash and cash equivalents at the end of the reporting period	5.06	18,760	16,127

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.

	2019/2020			2020/2021		
	Net Expenditure chargeable to the General Fund £000	Adjustments between the Funding and Accounting Basis £000	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	Net Expenditure in the Comprehensive Income and Expenditure Statement £000
Community Services	1,637	1,193	444	1,526	(344)	1,870
Corporate Services	3,670	(4,559)	8,229	3,272	(1,172)	4,444
Place Services	1,607	(348)	1,955	2,541	(1,855)	4,396
Environmental and Technical Services	309	(304)	613	2,111	(279)	2,390
Cost of Services	7,223	(4,018)	11,241	9,450	(3,650)	13,100
Other income and expenditure	(10,559)	826	(11,385)	(19,360)	(6,742)	(12,618)
(Surplus) or Deficit	(3,336)	(3,192)	(144)	(9,910)	(10,392)	482
Opening General Fund Balance	(19,220)			(22,556)		
Plus Surplus on General Fund in year	(3,336)			(9,910)		
Closing General Fund Balance	(22,556)			(32,466)		

3 NOTES TO THE COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

3.02 NOTE TO THE EXPENDITURE AND FUNDING ANALYSIS

2020/2021	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	(207)	(117)	(20)	(344)
Corporate Services	(918)	(229)	(25)	(1,172)
Place Services	(1,555)	(283)	(17)	(1,855)
Environmental and Technical Services	(60)	(199)	(20)	(279)
Net Cost of Services	(2,740)	(828)	(82)	(3,650)
Other income and expenditure from the Expenditure and Funding Analysis	(9)	(487)	(6,246)	(6,742)
Difference between General Fund surplus or deficit and Comprehensive Income and Expenditure Statement Surplus or Deficit on the Provision of Services	(2,749)	(1,315)	(6,328)	(10,392)

3 NOTES TO THE COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

2019/2020	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)
Place Services		(212)	(128)	(8)	(348)
Environmental and Technical Services		(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)

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.

3 NOTES TO THE COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

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.

	2019/2020 £000	2020/2021 £000
Expenditure		
Employee benefits expenses	6,457	7,305
Other services expenses	30,214	31,494
Depreciation, amortisation, impairment	6,157	3,326
Interest payments	258	244
Changes in fair value of investment properties	3	966
Precepts and levies	3,233	3,395
Non-domestic rates tariff, levy and deficit charges	11,730	18,061
Total Expenditure	58,052	64,791
Income		
Fees, charges and other service income	(14,356)	(11,277)
Interest and investment income	(364)	(543)
Income from council tax and non-domestic rates	(23,601)	(29,742)
Government grants and contributions	(19,785)	(22,747)
Gain on the disposal of assets	(90)	0
Total Income	(58,196)	(64,309)
Surplus or Deficit on the Provision of Services	(144)	482

3 NOTES TO THE COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

3.04 OTHER OPERATING EXPENDITURE

	2019/2020	2020/2021
	£000	£000
Parish council precepts	3,233	3,395
(Gains)/loss on the disposal of non-current assets	(90)	0
	3,143	3,395

3.05 FINANCING AND INVESTMENT INCOME AND EXPENDITURE

	2019/2020	2020/2021
	£000	£000
Interest payable and similar charges	258	244
Net interest on the defined benefit liability	580	645
Interest receivable and similar income	(334)	(157)
(Income) and expenditure in relation to investment properties and changes in their fair value	(27)	580
	477	1,312

3 NOTES TO THE COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

3.06 TAXATION AND NON SPECIFIC GRANT INCOME AND EXPENDITURE

	2019/2020	2020/2021
	£000	£000
Council tax income	(10,272)	(10,748)
Non-domestic rates income and safety net	(13,329)	(18,895)
Non-domestic rates tariff, levy and deficit charges	11,730	18,062
Non-ring fenced government grants	(2,344)	(5,317)
Capital grants and contributions	(790)	(427)
	(15,005)	(17,325)

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, and it 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 grant.

This income and expenditure is reported in the Consolidated Income and Expenditure Account in these statements and is supported by notes within the same section.

The council does not consider that there were any other material items of income and/or expense that were 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 2020/21 the council received £182,338 for providing these services (2019/20 £134,177).

3.09 MEMBERS ALLOWANCES

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

	2019/20	2020/21
	£000	£000
Allowances	232	242
Expenses	7	6
	<u>239</u>	<u>248</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 £	Total £
Joint Chief Executive	2020/21	100,804	3,869	17,641	122,314
	2019/20	98,106	3,969	15,795	117,870
Joint Chief Executive	2020/21	100,804	3,869	17,641	122,314
	2019/20	104,460	3,969	15,795	124,224
Section 151 Officer and Head of Corporate Services*	2020/21	24,467	0	3,664	28,131
	2019/20	79,078	2,555	12,731	94,364
Section 151 Officer and Head of Corporate Services**	2020/21	56,521	0	9,891	66,412
	2019/20	0	0	0	0
Head of Place***	2020/21	84,769	0	14,835	99,604
	2019/20	27,278	0	4,391	31,669
Head of Environmental and Technical Services	2020/21	85,011	0	14,877	99,888
	2019/20	69,096	3,000	10,649	82,745
Head of Community Services	2020/21	85,011	0	14,877	99,888
	2019/20	69,629	1,895	11,210	82,734

* Section 151 Officer left the council in June 2020.

** Section 151 Officer joined the council in August 2020.

*** Head of Place in 2019/20 started in December 2019. Figure for 2019/20 is not a full financial year comparable.

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 2019/20	Number of Employees 2020/21
£50,000 to £54,999	5	6
£55,000 to £59,999	1	5
£60,000 to £64,999	1	1
£65,000 to £69,999	1	2
	8	14

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:

3 NOTES TO THE COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

	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	
	2019/20	2020/21	2019/20	2020/21	2019/20	2020/21	2019/20	2020/21
£0 - £20,000	1	0	0	0	1	0	1,824	0
£20,001 - £40,000	1	0	0	0	1	0	20,832	0
	<u>2</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>2</u>	<u>0</u>	<u>22,656</u>	<u>0</u>

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 2019/20 was £41k for the appointed auditor work and £12k for the certification of grant claims. The ISA260 report states that the audit fees for previous year would be subject to overruns and therefore the 2019/20 audit fee exceeds what was disclosed last year as shown below.

	RESTATED 2019/20 £000	2020/21 £000
Fees payable to external auditors with regard to external audit services carried out by the appointed auditor for the year	85	66
Fees payable to external auditors for the certification of grant claims and returns for the year	14	12
	<u>99</u>	<u>78</u>

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.

The council credited the following grants, contributions and donations to the Comprehensive Income and Expenditure Statement in 2020/21 (table on following page).

Additional grants of £25.2m were received from the Government as part of their response to the Covid-19 pandemic, where the council was deemed to be acting as an agent and so passing these funds onto the eventual beneficiaries. These transactions do not have an impact on the Statement of Accounts, except where they pass through the Cash Flow Statement.

3 NOTES TO THE COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

	2019/20	2020/21
	£000	£000
Credited to Taxation and Non Specific Grant Income		
Non-ring fenced Government Grants		
New Homes Bonus	(2,283)	(2,377)
Non-ringfenced Government Grants - COVID Income Loss Support Grant	0	(1,702)
Non-ringfenced Government Grants - COVID Support	0	(1,165)
Non-ringfenced Government Grants - COVID New Burdens	0	(58)
Other Non-ring fenced Government Grants	(61)	(15)
	(2,344)	(5,317)
Capital Grants and Contributions		
Developer's Leisure Contributions	(108)	(307)
Other Capital Grants and Contributions	(682)	(120)
	(790)	(427)
	(3,134)	(5,744)
Credited to Services		
Housing Benefits/Council Tax Subsidy and Grants	(12,608)	(11,543)
Disabled Facilities Grant	(739)	(838)
Welfare	(906)	(1,201)
COVID-19 Grants	0	(3,277)
Developer's Contributions	(1,768)	252
Other Grants and Contributions	(630)	(397)
	(16,651)	(17,004)

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 no material operating lease agreements.

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 Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Credits are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments.

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 2020	31 March 2021
	£000	£000
Not later than one year	(1,281)	(1,109)
Later than one year and not later than five years	(6,338)	(6,760)
Later than five years	(3,854)	(1,954)
	<u>(11,473)</u>	<u>(9,823)</u>

3.14 CONSTRUCTION CONTRACTS

At 31 March 2021 the Council had one significant contract to build 41 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

2020/21	General Fund Balance £000	Capital Receipts Reserve £000	Capital Grants Unapplied £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>)	1,315	0	0
Financial Instruments (<i>transferred to the Financial Instruments Adjustments Account</i>)	(1)	0	0
Council tax and NDR (<i>transfers to (or from) Collection Fund</i>)	6,247	0	0
Holiday Pay (<i>transferred to the Accumulated Absences Reserve</i>)	83	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>)	3,319	0	(90)
Total Adjustments to Revenue Resources	10,963	0	(90)
Adjustments between Revenue and Capital Resources			
Statutory provision for the repayment of debt (<i>transfer from the Capital Adjustment Account</i>)	(516)	0	0
Capital expenditure financed from revenue balances (<i>transfer to the Capital Adjustment Account</i>)	(55)	0	0
Total Adjustments between Revenue and Capital Resources	(571)	0	0
Adjustments to Capital Resources			
Use of the Capital Receipts Reserve to finance capital expenditure	0	(213)	0
Application of Capital grants to finance capital expenditure	0	0	(4)
Total Adjustments to Capital Resources	0	(213)	(4)
Total Adjustments	10,392	(213)	(94)

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 (transferred to (or from) the Pensions Reserve)	843	0	0
Financial Instruments (transferred to the Financial Instruments Adjustments Account)	36	0	0
Council tax and NDR (transfers to (or from) Collection Fund)	88	0	0
Holiday Pay (transferred to the Accumulated Absences Reserve)	20	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)	2,849	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 (transfer from the Capital Adjustment Account)	(445)	0	0
Capital expenditure financed from revenue balances (transfer to the Capital Adjustment Account)	(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	(328)	0
Application of Capital grants to finance capital expenditure	0	0	(272)
Total Adjustments to Capital Resources	0	(328)	(272)
Total Adjustments	3,192	(151)	2,050

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.

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 in the manner intended by management

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 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.

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.

Capital Expenditure and De minimis - Expenditure on the acquisition, creation or enhancement of tangible fixed assets is accounted for on an accruals basis. Capitalisation thresholds apply so that for land and buildings a de minimis of £10k applies, and for plant and equipment a de minimis of £5k applies, where it meets the criteria of having a life greater than a year and/or has increased the value/life of an asset or enhanced the usability of the asset.

5 NOTES TO THE BALANCE SHEET

5.01.1 Revaluations

The council carries out a rolling programme that ensures all Property, Plant and Equipment required to be measured at fair value is revalued at least every five years and all assets within a class are revalued simultaneously. For the 2020/21 financial year, valuations were carried out as at 31 March 2021. Increases in valuation are matched by credits to the Revaluation Reserve to recognise unrealised gains. Where decreases in value are identified, they are accounted for as follows:

- Where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains).
- Where there is no balance 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

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

5 NOTES TO THE BALANCE SHEET

	Other Land & Buildings	Vehicles, Plant & Equipment	Infrastructure Assets	Community Assets	Assets Under Construction	Surplus Assets	Total
	£000	£000	£000	£000	£000	£000	£000
Carried at historical cost	0	3,051	271	4,526	798	0	8,646
Valued at:							
31 March 2021	29,237	0	0	0	0	0	29,237
31 March 2020	3,384	0	0	0	0	0	3,384
31 March 2019	2,118	0	0	0	0	0	2,118
31 March 2018	700	0	0	0	0	0	700
31 March 2017	789	0	0	0	0	0	789
Total cost or valuation	36,228	3,051	271	4,526	798	0	44,874

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.

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

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

5 NOTES TO THE BALANCE SHEET

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

There were no impairment losses recognised in the year 2020/21 (2019/20 had no impairment losses).

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 over the life of the asset
- Buildings – straight line allocation over the life of the property as estimated by the valuer
- Land – is not depreciated
- Assets under construction – not depreciated
- Vehicles, plant and equipment – straight line allocation over the life of the asset
- IT and Intangible Assets – straight line allocation over the life of the asset

5 NOTES TO THE BALANCE SHEET

The Useful Economic Life of assets in each category can vary depending on the type, make, construction and use of the asset. Current lives used for accounting purposes are:

- Infrastructure 3 to 25 years
- Buildings 10 to 53 years
- Land 99 years
- Vehicles, plant and equipment 1 to 5 years
- IT and Intangible Asset 3 years

5.01.4 Capital Commitments

At the 31 March 2021, the authority has entered into an agreement for:

- Construction of two blocks of 41 apartments at Hitches Lane, Fleet £6.6m
- Upgrade of IT Infrastructure £23k
- Purchase, and installation fencing and gates at Hazeley Heath £22k
- Fleet Pond Green Corridor - Construction of a Pathway £24k

Capital commitments in place at the 31 March 2020 were £6.6m for construction of two blocks of 41 apartments at Hitches Lane, Fleet

5 NOTES TO THE BALANCE SHEET

5.01.5 Movements on Balances

2020/21	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 2020	36,585	2,755	267	4,402	755	42	44,806
Additions	10	296	4	124	43	0	477
Revaluation increases / (decreases) recognised in the Revaluation Reserve	1,437	0	0	0	0	(1)	1,436
Revaluation increases / (decreases) recognised in the Surplus / Deficit on the Provision of Services	(1,804)	0	0	0	0	(3)	(1,807)
Reclassifications	0	0	0	0	0	(38)	(38)
At 31 March 2021	36,228	3,051	271	4,526	798	0	44,874
Accumulated Depreciation & Impairment							
At 1 April 2020	(278)	(1,600)	(29)	(388)	0	0	(2,295)
Depreciation charge	(1,260)	(215)	(11)	(61)	0	0	(1,547)
Depreciation written out to the Revaluation Reserve	518	0	0	0	0	0	518
Depreciation written out to the Surplus / Deficit on the Provision of Services	893	0	0	0	0	0	893
At 31 March 2021	(127)	(1,815)	(40)	(449)	0	0	(2,431)
Net Book Value							
31 March 2021	36,101	1,236	231	4,077	798	0	42,443
31 March 2020	36,307	1,155	238	4,014	755	42	42,511

5 NOTES TO THE BALANCE SHEET

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

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 arm's-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 proceeds greater than £10k) 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.

	2019/20	2020/21
	£000	£000
Rental income from investment property	30	386
Net gain	<u>30</u>	<u>386</u>

5 NOTES TO THE BALANCE SHEET

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

	2019/20	2020/21
	£000	£000
Balance at start of year	70	6,350
Additions:		
Purchases	6,283	0
Net gains or (losses) from fair value adjustments	(3)	(966)
Transfers (to) or from Property, Plant and Equipment	0	38
Balance at end of year	6,350	5,422

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.

5 NOTES TO THE BALANCE SHEET

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 life assigned to the major software suites used by the council is three years.

The carrying amount of intangible assets is amortised on a straight-line basis. The amortisation of £8k charged to revenue in 2020/21 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.

	2019/20	2020/21
	£000	£000
Balance at the start of year:		
Gross carrying amounts	366	362
Accumulated amortisation	(349)	(354)
Net carrying amount at the start of the year	17	8
Disposals	(4)	0
Amortisation for the period	(9)	(8)
Other changes - Amortisation on disposals	4	0
Net carrying amount at the end of year	8	0
Comprising:		
Gross carrying amounts	362	362
Accumulated amortisation	(354)	(362)
	8	0

5 NOTES TO THE BALANCE SHEET

5.04 FINANCIAL INSTRUMENTS

5.04.1 Categories of Financial Instruments

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

There are three main classes of financial assets measured at:

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

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

Financial assets measured at amortised cost are recognised on the Balance Sheet when the authority becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value. They are subsequently measured at their amortised cost. Annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement (CIES) for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument.

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

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

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

5 NOTES TO THE BALANCE SHEET

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.

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		31 March 2020 £000	31 March 2021 £000
	31	31	31	31	31	31	31	31		
	March	March	March	March	March	March	March	March		
	2020	2021	2020	2021	2020	2021	2020	2021		
£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	
Amortised cost-soft loan	0	0	1,254	1,049	0	0	209	217	1,463	1,266
Amortised cost-other	0	0	0	0	29,760	33,127	3,058	2,601	32,818	35,728
Total Financial Assets	0	0	1,254	1,049	29,760	33,127	3,267	2,818	34,281	36,994
Non-financial instruments balance	0	0	0	0	0	0	1,784	13,814	1,784	13,814
Total	0	0	1,254	1,049	29,760	33,127	5,051	16,632	36,065	50,808

5 NOTES TO THE BALANCE SHEET

Financial Liabilities	Non-current				Current				Total	
	Borrowings		Creditors		Borrowings		Creditors			
	31 March 2020	31 March 2021	31 March 2020	31 March 2021	31 March 2020	31 March 2021	31 March 2020	31 March 2021	31 March 2020	31 March 2021
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
Amortised costs	(11,008)	(10,152)	0	0	(1,377)	(1,383)	(3,098)	(3,992)	(15,483)	(15,527)
Total Financial Liabilities	(11,008)	(10,152)	0	0	(1,377)	(1,383)	(3,098)	(3,992)	(15,483)	(15,527)
Non-financial instruments balance	0	0	0	0	0	0	(4,149)	(16,659)	(4,149)	(16,659)
Total	(11,008)	(10,152)	0	0	(1,377)	(1,383)	(7,247)	(20,651)	(19,632)	(32,186)

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 £1.931m to Serco Ltd over seven years.

Material Soft Loans made by authority	2019/20	2020/21
	£000	£000
Balance at start of the year:		
Opening balance	1,506	1,463
Nominal value of new loans granted in the year	166	23
Fair value adjustment on initial recognition	(11)	(2)
Loans repaid	(198)	(218)
Closing balance at the end of the year	1,463	1,266
Nominal value at 31 March	1,585	1,358

5 NOTES TO THE BALANCE SHEET

5.04.3 Income, Expense, Gains and Losses

Income Expense Gains & Losses	2019/20	2020/21
	Surplus or Deficit on Provision of Services	Surplus or Deficit on Provision of Services
	£000	£000
Interest Expense:		
Financial liabilities measured at amortised cost	258	244
Total Expense	258	244
Interest Revenue:		
Financial assets measured at amortised cost	(334)	(157)
Total Income	(334)	(157)
Net (Profit) / Loss for the year	(76)	87

5.04.4 Fair Value of Financial Assets

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

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

5 NOTES TO THE BALANCE SHEET

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

Financial Assets & Liabilities	31 March 2020		31 March 2021	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	£000	£000	£000	£000
Financial Assets				
Amortised cost - Investments	29,760	29,776	33,127	33,127
Amortised cost - Short term debtors	3,267	3,267	2,818	2,818
Long term debtors	1,254	1,254	1,049	1,049
Total Financial Assets	34,281	34,297	36,994	36,994
Financial Liabilities				
Amortised cost - Short term borrowing	(1,377)	(1,377)	(1,383)	(1,383)
Amortised cost - Short term creditors	(3,098)	(3,098)	(3,992)	(3,992)
Long term borrowing	(11,008)	(10,888)	(10,152)	(10,548)
Total Financial Liabilities	(15,483)	(15,363)	(15,527)	(15,923)

5 NOTES TO THE BALANCE SHEET

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 2020	31 March 2021
	£000	£000
Short-term Debtors		
Central government bodies	187	8,686
Other local authorities	1,361	4,392
Other entities and individuals	3,503	3,554
	<u>5,051</u>	<u>16,632</u>
Long-term Debtors		
Other entities and individuals	1,254	1,049
	<u>1,254</u>	<u>1,049</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 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 2020	31 March 2021
	£000	£000
Bank current accounts	2,439	1,477
Short-term deposits	16,322	14,650
	18,760	16,127

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 2021 there are no assets classified as held for sale.

	31 March 2020	31 March 2021
	£000	£000
Balance outstanding at start of year	88	0
Assets newly classified as held for sale:		
Property, Plant & Equipment	0	0
Assets Sold	(88)	0
Balance outstanding at year-end	0	0

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 council have borrowing with Public Works Loan Board (PWLB) and Hampshire County Council (HCC) as shown in the table below:

	31 March 2020 £000	31 March 2021 £000
Short term Borrowing		
PWLB	377	383
HCC	1,000	1,000
Total	<u>1,377</u>	<u>1,383</u>
Long term Borrowing		
PWLB	8,577	8,242
HCC	2,431	1,910
Total	<u>11,008</u>	<u>10,152</u>
Total	<u>12,385</u>	<u>11,535</u>

5 NOTES TO THE BALANCE SHEET

5.09 CREDITORS

Creditors are all amounts owed by the council as at 31 March 2021.

	31 March 2020	31 March 2021
	£000	£000
Central government bodies	(2,337)	(13,980)
Other local authorities	(2,443)	(2,475)
Other entities and individuals	(2,467)	(4,196)
	<u>(7,247)</u>	<u>(20,651)</u>

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 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.

5 NOTES TO THE BALANCE SHEET

	Balance at 1 April 2020 £000	Additional provisions made in 2020/21 £000	Amounts used in 2020/21 £000	Unused amounts reversed in 2020/21 £000	Balance at 31 March 2021 £000
Business Rates Appeals Provision	(302)	(1,100)	875	0	(527)
	(302)	(1,100)	875	0	(527)

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, these do not represent usable resources for the council – these are capital reserves.

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 - Earmarked reserves are created for specific purposes (legal/contractual requirement) that span financial years for which there is a definitive time frame. 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.

5 NOTES TO THE BALANCE SHEET

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 2020/21.

	Balance at 1 April 2019	Transfers In 2019	Transfers Out 2019	Balance at 31 Mar 2020	Transfers in 2020/21	Transfers Out 2020/21	Balance at 31 Mar 2021
	£000	£000	£000	£000	£000	£000	£000
Hitches Lane SANG	6,019	1,039	(135)	6,922	712	(272)	7,362
NNDR Smoothing Account	1,124	500	0	1,624	4,994	0	6,618
Bramshot - SANG	958	1,173	(322)	1,809	3,367	(1,878)	3,298
Corporate Services	2,592	150	(576)	2,166	500	(283)	2,383
Small SANG Sites	576	1	(20)	558	1,537	(69)	2,026
Housing	1,410	639	(569)	1,480	960	(626)	1,814
Digital Transformation	0	500	0	500	0	(35)	465
COVID-19 Reserves	0	0	0	0	413	0	413
Open Spaces	324	49	(53)	320	29	(54)	295
Planning	217	0	0	217	59	0	276
Health Contribution	263	2	0	265	0	0	265
Regulatory Services	50	57	0	107	0	(34)	73
Community Reserve	39	0	(26)	13	0	0	13
Other Earmarked Reserves	110	123	(38)	195	184	(124)	255
	13,682	4,233	(1,739)	16,176	12,755	(3,375)	25,556

5 NOTES TO THE BALANCE SHEET

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

SANGs

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

NNDR Smoothing Account

To fund any NNDR deficit

Open Spaces

Developer's contributions towards the maintenance of Elvetham Heath plus funds for supporting roundabout sponsorship.

Regulatory Services

To support our democratic structure in delivering web streaming of regulatory services committee meetings.

Homelessness Housing Reserve

To facilitate the provision of services to homeless people in the District.

Corporate, Planning and Community Reserves

To fund a number of projects within these service areas.

Health Contribution

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

Digital Transformation

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

COVID-19

To support specific projects and responsibilities as a direct result of the pandemic.

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

	31 March 2020	31 March 2021
	£000	£000
Balance at 1 April	3,450	6,876
Upward revaluation of assets	4,429	1,956
Downward revaluation of assets and impairment losses not charged to the Surplus/Deficit on the Provision of Services	(876)	(1)
Surplus or deficit on revaluation of non-current assets not posted to the Surplus or Deficit on the Provision of Services	3,554	1,955
Difference between fair value depreciation and historical cost depreciation	(128)	(137)
Amount written off to the Capital Adjustment Account	(128)	(137)
Balance at 31 March	6,876	8,694

5 NOTES TO THE BALANCE SHEET

5.12.2 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.

Note, some totals may not cast by £1,000 due to rounding's but need to remain to reconcile through the accounts.

5 NOTES TO THE BALANCE SHEET

	31 March 2020	31 March 2021
	£000	£000
Balance at 1 April	22,564	18,588
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	(1,640)	(1,547)
Revaluation gains or (losses) on Property, Plant and Equipment	(3,130)	(914)
Amortisation of intangible assets	(9)	(8)
Revenue expenditure funded from capital under statute	(1,376)	(857)
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	(88)	0
	(6,243)	(3,327)
Adjusting amounts written out of the Revaluation Reserve	128	137
Net written out amount of the cost of non-current assets consumed in the year	(6,115)	(3,190)
Capital financing applied in the year:		
Use of the Capital Receipts Reserve to finance new capital expenditure	329	213
Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	1,075	1,063
Application of grants to capital financing from the Capital Grants Unapplied Account	272	4
Statutory provision for the financing of capital investment charged against the General Fund balance	445	516
Capital expenditure charged against the General Fund balance	21	55
	2,142	1,850
Movements in the market value of Investment Properties debited or credited to the Comprehensive Income and Expenditure Statement	(3)	(966)
Balance at 31 March	18,588	16,282

5 NOTES TO THE BALANCE SHEET

5.12.3 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 2020	31 March 2021
	£000	£000
Balance at 1 April	23	(12)
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	(35)	1
Balance at 31 March	<u>(12)</u>	<u>(11)</u>

5.12.4 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 2020	31 March 2021
	£000	£000
Balance at 1 April	(24,773)	(27,803)
Re-measurement of the net defined benefit liability / asset	(2,187)	(863)
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	(2,056)	(2,277)
Employer's pensions contributions and direct payments to pensioners payable in the year	1,213	962
Balance at 31 March	(27,803)	(29,981)

5.12.5 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 2020	31 March 2021	31 March 2021	31 March 2021
	£000	£000	£000	£000
Balance at 1 April	(167)	31	(286)	(255)
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	(88)	30	(6,277)	(6,247)
Balance at 31 March	(255)	61	(6,563)	(6,502)

5 NOTES TO THE BALANCE SHEET

5.12.6 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.

	31 March 2020	31 March 2021
	£000	£000
Balance at 1 April	(48)	(68)
Settlement or cancellation of accrual made at the end of the preceding year	48	68
Amounts accrued at the end of the current year	(68)	(151)
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	(20)	(83)
Balance at 31 March	(68)	(151)

5 NOTES TO THE BALANCE SHEET

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 (REFCUS) - 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 benefit 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

	2019/20	2020/21
	£000	£000
Opening Capital Financing Requirement	16,263	23,405
Capital Investment		
Property, Plant and Equipment	1,624	478
Investment Properties	6,283	0
Revenue Expenditure Funded from Capital under Statute	1,376	857
Sources of Finance		
Capital receipts	(329)	(213)
Government grants and other contributions	(1,346)	(1,067)
Sums set aside from revenue		
Direct revenue contributions	(21)	(55)
Minimum revenue provision	(445)	(516)
Closing Capital Financing Requirement	23,405	22,889
Explanation of movements in year		
Increase/(decrease) in underlying need to borrow (unsupported by Government financial assistance)	7,142	(516)
Increase/(decrease) in Capital Financing Requirement	7,142	(516)

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.

5.14.1 Council as Lessee

Property, plant and equipment held under finance leases is recognised on the Balance Sheet at the commencement of the lease at its fair value measured at the lease's inception. 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.

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.

Lease rentals receivable are apportioned between:

5 NOTES TO THE BALANCE SHEET

- 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

The council participates in one post-employment scheme:

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 pension's 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.

5.15.2 Transactions Relating to Post-employment Benefits

We recognise 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. However, the charge we are required to make against council tax is based on the cash payable in the year, so the real cost of post-employment/retirement benefits is reversed out of the General Fund via the Movement in Reserves Statement.

5 NOTES TO THE BALANCE SHEET

	Local Government Pension Scheme		Discretionary Benefits Arrangements	
	2019/20	2020/21	2019/20	2020/21
	£000	£000	£000	£000
Comprehensive Income and Expenditure Statement				
Operating cost comprising:				
Current Service Cost	1,476	1,632	0	0
Net interest expense	534	603	46	42
Total Post-employment Benefits Charged to the (Surplus) or Deficit on the Provision of Services	2,010	2,235	46	42
Remeasurement of the net defined benefit liability comprising:				
Return on plan assets (excluding the amount included in the net interest expense)	1,757	(12,267)	0	0
Actuarial (gains) and losses arising on changes in demographic assumptions	(1,925)	0	(35)	0
Actuarial (gains) and losses arising on changes in financial assumptions	(1,626)	14,054	(17)	138
Actuarial (gains) and losses due to liability experience	3,948	(1,035)	85	(27)
Total Post-employment Benefit (Gains) and Losses Charged to the Comprehensive Income and Expenditure Statement	4,164	2,987	79	153

5 NOTES TO THE BALANCE SHEET

	Local Government Pension Scheme		Discretionary Benefits Arrangements	
	2019/20	2020/21	2019/20	2020/21
	£000	£000	£000	£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	(2,010)	(2,235)	(46)	(42)
Actual amount charged against the General Fund Balance for pensions in the year:				
Employers' contributions to the scheme	1,055	804	0	0
Retirement benefits payable to pensioners	0	0	158	158

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:

	Local Government Pension Scheme		Discretionary Benefits Arrangements	
	2019/20	2020/21	2019/20	2020/21
	£000	£000	£000	£000
Present value of the defined benefit obligation	78,640	93,058	2,002	1,997
Fair value of plan assets	(52,760)	(64,995)	0	0
Net liability arising from defined benefit obligation	25,880	28,063	2,002	1,997

5 NOTES TO THE BALANCE SHEET

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

	Local Government Pension Scheme		Discretionary Benefits Arrangements	
	2019/20	2020/21	2019/20	2020/21
	£000	£000	£000	£000
Opening fair value of scheme assets	54,733	52,760	0	0
Opening fair value of scheme assets adjustment	(4)	0	0	0
Interest income	1,296	1,183	0	0
Remeasurement gain/(loss):				
Return on plan assets, excluding the amount in the net interest expense	(1,757)	12,267	0	0
Contributions from employer	1,055	804	159	157
Contributions from employees into the scheme	279	330	0	0
Benefits paid	(2,842)	(2,349)	(159)	(157)
Closing fair value of scheme assets	52,760	64,995	0	0

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	
	2019/20	2020/21	2019/20	2020/21
	£000	£000	£000	£000
Opening balance at 1 April	77,500	78,640	2,085	2,002
Opening balance at 1 April adjustment	0	0	(3)	0
Current service cost	1,476	1,632	0	0
Interest cost	1,830	1,786	46	42
Contributions from scheme participants	279	330	0	0
Actuarial (gains) and losses arising on changes in demographic assumptions	(1,925)	0	(35)	0
Actuarial (gains) and losses arising on changes in financial assumptions	(1,626)	14,054	(17)	138
Actuarial (gains) and losses due to liability experience	3,948	(1,035)	85	(27)
Benefits paid	(2,842)	(2,349)	(159)	(158)
Closing balance at 31 March	78,640	93,058	2,002	1,997

5 NOTES TO THE BALANCE SHEET

5.15.6 Local Government Pension Scheme Assets

The fair value of the scheme assets are:

	2019/20		2020/21		2020/21		2020/21
	Total		Quoted		Unquoted		Total
	£000	%	£000	%	£000	%	£000
Cash and cash equivalents	1,794	3.4	910	1.4	0	0.0	910
Equities	27,752	52.6	32,108	49.4	4,939	7.6	37,047
Bonds:							
Government	11,185	21.2	11,244	17.3	0	0.0	11,244
Property	3,693	7.0	520	0.8	3,445	5.3	3,965
Other*	8,336	15.8	10,334	15.9	1,495	2.3	11,829
Total	52,760	100	55,116	84.8	9,879	15.2	64,995

*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

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

5 NOTES TO THE BALANCE SHEET

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	
	2019/20	2020/21
Mortality assumptions:		
Longevity at 65 for current pensioners:		
- men	23.0	23.1
- women	25.5	25.5
Longevity at 65 for future pensioners:		
- men	24.7	24.8
- women	27.2	27.3
RPI increases	0.0%	0.0%
CPI increases	2.0%	2.7%
Rate of increase in salaries	3.0%	3.7%
Rate of increase in pensions	2.0%	2.7%
Pension accounts revaluation rate	2.0%	2.7%
Rate for discounting scheme liabilities	2.3%	2.1%

5 NOTES TO THE BALANCE SHEET

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%	(1,675)	1,768
Salaries - increase/decrease by 0.1%	93	(93)
Pensions - increase/decrease by 0.1%	1,582	(1,582)
Longevity - increase/decrease by 1 year*	3,350	(3,257)

*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.

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 £0.836 million in expected contributions to the scheme in 2021/22.

5 NOTES TO THE BALANCE SHEET

5.16 EVENTS AFTER THE BALANCE SHEET DATE

The unaudited statement of accounts was authorised for issue by the S151 Officer on 30 June 2021. Events taking place after this date are not reflected in the financial statements or notes. Where events taking place before this date provided information about conditions existing at 31 March 2021, the figures in the financial statements and notes have been adjusted in all material respects to reflect the impact of this information.

The financial statements and notes have not been adjusted for the following events, which took place after 31 March 2021, 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:

- Hart Housing Property Management Company Ltd (HHPMC) was incorporated on 16th June 2021. Its purpose is to manage residential properties. The company is 100% owned by Hart District Council.
- The council completed the purchase of 41 apartments at Edenbrook, Fleet on 14th May 2021 for £7 million. HHPMC will manage the letting and management of these homes as affordable rented properties.
- The council completed the purchase of Centenary House, an office building in Basingstoke, Hampshire on 28th June 2021 for £11.69 million.

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 creditors. When conditions are satisfied, the grant or contribution is credited to the relevant service line (attributable revenue grants and contributions) or Taxation and Non-Specific Grant Income (non-ring-fenced revenue grants and all capital grants) in the Comprehensive Income and Expenditure Statement.

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

5 NOTES TO THE BALANCE SHEET

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 2020	31 March 2021
	£000	£000
Grampian Conditions	5,107	3,280
	<u>5,107</u>	<u>3,280</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 CASHFLOW

6.01 OPERATING ACTIVITIES

The cash flows for operating activities include the following items:

	2019/20	2020/21
	£000	£000
Interest received	401	155
Interest paid	(260)	(193)

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

	2019/20	2020/21
	£000	£000
Depreciation and Amortisation	1,651	1,555
Impairment and downward valuations	3,130	914
Net book value of disposed assets	88	0
(Increase) / Decrease in Debtors	(367)	(519)
Increase / (Decrease) in Creditors	1,150	11,239
Increase / (Decrease) in Provisions	(31)	225
Movement in Pension Liability	842	1,316
Changes in fair value of investment properties	3	966
Movement in Fair Values of Financial instruments	36	(1)
Other non-cash items charged to the net surplus or deficit on the provision of services	286	(1,827)
	6,788	13,868

6 NOTES TO THE CASHFLOW

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

	2019/20	2020/21
	£000	£000
Proceeds from the sale of property, plant and equipment, investment property and intangible assets	(178)	0
Any other items for which the cash effects are investing or financing cash flows	(3,371)	(1,385)
	(3,549)	(1,385)

6.02 INVESTING ACTIVITIES

	2019/20	2020/21
	£000	£000
Purchase of property, plant & equipment, investment property and intangible assets	(7,884)	(606)
Purchases of short & long term investments	0	(6,000)
Other payments for investing activities	(5)	(5)
Proceeds from sale of property, plant & equipment, investment property and intangible assets	288	0
Proceeds from short & long term investments	1,000	0
Other receipts for investing activities	3,371	966
Net cash flows from investing activities	(3,230)	(5,645)

6 NOTES TO THE CASHFLOW

6.03 FINANCING ACTIVITIES

	2019/20	2020/21
	£000	£000
- Council Tax Preceptor Cash Receipts	743	0
- COVID-19 Grants Central Government Cash Receipts	0	2,598
Repayment of short & long term borrowing	(1,321)	(878)
Other payments from financing activities		
- Council Tax Preceptor Cash Payments	0	(1,000)
- NNDR Cash Payments	(77)	(9,709)
Net cash flows from financing activities	(655)	(8,989)

6 NOTES TO THE CASHFLOW

6.04 RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

2020/2021	1 April 2020	Financing Cash Flows	Other Non-Cash Changes	31 March 2021
	£000	£000	£000	£000
Long term borrowing	11,008	0	(857)	10,151
Short-term borrowing	1,377	(878)	884	1,383
Other (payments)/receipts for financing activities	835	(8,111)	0	(7,276)
	<u>13,220</u>	<u>(8,989)</u>	<u>27</u>	<u>4,258</u>

2019/2020	1 April 2019	Financing Cash Flows	Other Non-Cash Changes	31 March 2020
	£000	£000	£000	£000
Long term borrowing	12,277	0	(1,269)	11,008
Short-term borrowing	1,372	(1,321)	1,326	1,377
Other (payments)/receipts for financing activities	169	666	0	835
	<u>13,817</u>	<u>(655)</u>	<u>57</u>	<u>13,220</u>

7 ADDITIONAL NOTES TO THE STATEMENT OF ACCOUNTS

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 2020/21 (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 3 Business Combinations**
- **Interest Rate Benchmark Reform – Phase 2: Amendments to IFRS 9 (Financial Instruments), IAS 39 (Financial Instruments), IFRS 7 (Financial Instruments), and IFRS 4 (Insurance Contracts)**

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. At this point, it was expected that the government would implement the outcomes of the Fair Funding Review, reset the Business Rates baseline, and also extend Business Rates Retention to a 75% scheme. The anticipated effects of these would have been detrimental to the future funding for district councils. All of these were delayed due to the Pandemic and were not implemented for the single year settlement for 2021-22. It now appears increasingly likely that they will also not be implemented for 2022-23. However, this does remain a risk and reserves are being held accordingly to protect the medium term financial position of the council. The next Spending Review will be undertaken by the Chancellor of the Exchequer in autumn 2021 and the effect of this on local government funding is yet to be determined

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

7 ADDITIONAL NOTES TO THE STATEMENT OF ACCOUNTS

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 2021 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

7 ADDITIONAL NOTES TO THE STATEMENT OF ACCOUNTS

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 and continues to impact many aspects of daily life and the global economy. In some cases, "lockdowns" have been applied to varying degrees and to reflect further "waves" of COVID-19; although these may imply a new stage of the crisis, they are not unprecedented in the same way as the initial impact. The pandemic and the measures taken to tackle COVID-19 continue to affect economies and real estate markets globally. Nevertheless, as at the valuation date some property markets have started to function again.</p> <p>Accordingly, and for the avoidance of doubt, our valuation is not reported as being subject to 'material valuation uncertainty' as defined by VPS 3 and VPGA 10 of the RICS Valuation – Global Standards.</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 £107,000 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	Investment properties are revalued every year and, therefore, takes into account the current market conditions.	A 1% movement in the valuation of investment properties would equate to a movement of £54,220

7 ADDITIONAL NOTES TO THE STATEMENT OF ACCOUNTS

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 £1,675,000</p> <p>However, the assumptions interact in complex ways. During 2020/21, the council's actuaries advised that the net pension liability had decreased by £1,062,000 as a result of estimates being corrected as a result of experience and increased by £1,925,000 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 2021, the council had a balance of sundry (trade) debtors of £1,842,673. A review of significant balances suggested that an impairment of doubtful debts of £559,956 (30%) 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 £559,956 to set aside as an allowance from revenue. The council has earmarked £465,000 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 STATEMENT OF ACCOUNTS

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 2020/21.

As of the date of the Responsible Finance Officer signing the accounts, there were 5 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 2020/21.

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.

7 ADDITIONAL NOTES TO THE STATEMENT OF ACCOUNTS

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:

	31 March 2020	31 March 2021
	£000	£000
Amounts due to Central Government	(2,337)	(13,980)
Amounts due to Hampshire County Council	(107)	(25)
Amounts due from Central Government	187	8,686
Amounts due from Hampshire County Council	244	2,488

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 STATEMENT OF ACCOUNTS

- Market risk – the possibility that financial loss might arise for the council as a result of changes in such measures as interest rates and stock market movements.

The authority's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the resources available to fund services. Risk management is carried out by a central treasury team, under policies approved by the council in the annual treasury management strategy. The council provides written principles for overall risk management, as well as written policies covering specific areas such as interest rate risk, credit risk and the investment of surplus cash.

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 & Poors 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 Poors. 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.

The table below summarises the nominal value of the council's investment portfolio at 31 March 2021 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.

7 ADDITIONAL NOTES TO THE STATEMENT OF ACCOUNTS

Credit Risk – Investments and Cash & Cash Equivalents

	31 March 2020	31 March 2021
	£000	£000
AAA rated counterparties	14,000	4,975
AA- rated counterparties	0	10,000
A+ rated counterparties	15,760	4,996
A rated counterparties	0	13,156
	<u>29,760</u>	<u>33,127</u>

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 2020	31 March 2021
	£000	£000
Less than three Months	1,466	817
Three to six months	439	28
Six months to one year	332	47
More than one year	327	951
	<u>2,564</u>	<u>1,843</u>

7 ADDITIONAL NOTES TO THE STATEMENT OF ACCOUNTS

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.

The maturity analysis of financial liabilities is as follows:

	31 March 2020	31 March 2021
	£000	£000
Less than one year	1,377	1,383
Between one and two years	1,289	1,303
Between two and five years	2,530	2,025
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	765	257
	12,385	11,534

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

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.

7 ADDITIONAL NOTES TO THE STATEMENT OF ACCOUNTS

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

The council has a number of strategies for managing interest rate risk. The Annual Treasury Management Strategy draws together the 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 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 2021 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

7 ADDITIONAL NOTES TO THE STATEMENT OF ACCOUNTS

Accruals

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.
- 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.

Available for Sale/Financial Instruments Revaluation Reserve

The Available for Sale Financial Instruments Reserve contains the gains made by the Council arising from increases in the value of its investments that have quoted market prices or otherwise do not have fixed or determinable payments. The balance is reduced when investments with accumulated gains are revalued downwards or impaired and the gains are lost or disposed of and the gains are realised. Following the introduction of IFRS9 this reserve is has moved to Financial Instrument Revaluation Reserve.

Deferred Capital Receipts Reserve

The Deferred Capital Receipts Reserve holds the gains recognised on the disposal of noncurrent assets but for which cash settlement has yet to take place. Under statutory arrangements, the Council does not treat these gains as usable for financing new capital expenditure until they are backed by cash receipts. When the deferred cash settlement eventually takes place, amounts are transferred to the Capital Receipts Reserve

7 ADDITIONAL NOTES TO THE STATEMENT OF ACCOUNTS

Disposal of Assets

Where an asset is disposed of or decommissioned, the carrying amount of the asset in the Balance Sheet is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. Receipts from disposals (if any) are credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal.

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. This excludes all investment properties as these properties will be financed once the property is sold and if the value of the property reduces a reserve will be created.

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

7 ADDITIONAL NOTES TO THE STATEMENT OF ACCOUNTS

Overheads

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

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

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

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

7 ADDITIONAL NOTES TO THE STATEMENT OF ACCOUNTS

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 councils to recover the majority of VAT incurred.

7.08 GOING CONCERN

These accounts have been prepared on a going concern basis that the authority will continue in operational existence for the foreseeable future.

The provisions in the Code of Audit Practice in respect of going concern reporting requirements reflect the economic and statutory environment in which local authorities operate. These provisions confirm that, as authorities cannot be created or dissolved without statutory prescription, they must prepare their financial statements on a going concern basis of accounting. Local authorities carry out functions essential to the local community and are themselves revenue-raising bodies (with limits on their revenue-raising powers arising only at the discretion of central government). If an authority were in financial difficulty, the prospects are thus that alternative arrangements might be made by central government either for the continuation of the services it provides or for assistance with the recovery of a deficit over more than one financial year. As a result of this, it would not therefore be appropriate for local authority financial statements to be provided on anything other than a going concern basis. Accounts drawn up under the Code therefore assume that a local authority's services will continue to operate for the foreseeable future.

The council carried out a detailed assessment of the likely impact of COVID-19 on its financial position for 2021/22 and considered its likely impact on future years as parts of its medium-term financial planning. Whilst the Budget for 2021/22 was balanced (with a reserve contribution of £381k), the medium-term financial forecast indicates a budget shortfall of £1,018k. There is headroom available within reserves that could be used to help balance the budget in the short term if measures identified do not address the full extent of the shortfall.

Whilst there is uncertainty on income, the council remains confident in its ability to maintain sufficient cash for its services throughout the medium term. The council has undertaken cashflow forecasting for the period through to the end of December 2022, covering beyond the 12-month going concern period. This shows that the cash balances remain positive throughout the period, and there is no forecast need to borrow through that period for cash management purposes.

7 ADDITIONAL NOTES TO THE STATEMENT OF ACCOUNTS

In terms of cash and cash equivalent balances the council held the following: -

	31 March 2020 £000	31 March 2021 £000
Bank current accounts	2,439	1,477
Short-term deposits (< 7 days' notice)	3,322	9,654
	5,761	11,131

As the table illustrates above, the council held cash balances of over £11.131m on 31st March 2021 in comparison to £5.761m at the 31st March 2020. This represents an increase of £5.370m over the 12-month period and provides evidence that Hart DC can meet its financial obligations.

Furthermore, the council is continually assessing the 2021-22 capital programme, although no postponements have been agreed, this is an option if further protection to the levels of cash and useable reserves were needed.

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

8 COLLECTION FUND

The Collection Fund Statement is a record of revenue expenditure and income relating to the council's role as a billing authority 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 authority in relation to the collection from taxpayers of tax due and its distribution to other local authorities, Major Preceptors 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 Authority.

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 non-domestic rates (NDR). The fund key features relevant to accounting for council tax in the core financial statements are:

- 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 authority or paid out of the Collection Fund to major preceptors.
- 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 NDR Income is in substance an agency arrangement:

- Cash collected by the billing authority from council tax debtors belongs proportionately to the billing authority and the major preceptors. There will be therefore a debtor/creditor position between the billing authority 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.
- Cash collected from NDR taxpayers by billing authorities (net of the cost of collection allowance) belongs to the government and preceptors and the amount not yet paid to them at the Balance Sheet date shall be included in the Balance Sheet as a creditor; similarly, if cash paid to the government and preceptors exceeds the cash collected from NDR taxpayers (net of the billing authority's cost of collection allowance), the excess shall be included in the Balance Sheet as a debtor.

8 COLLECTION FUND

	Council Tax	Non- Domestic Rates	Total Collection Fund	Council Tax	Non- Domestic Rates	Total Collection Fund
	2019/20	2019/20	2019/20	2020/21	2020/21	2020/21
	£000	£000	£000	£000	£000	£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)	(72,019)	N/A	(72,019)	(75,589)	N/A	(75,589)
Transitional protection payments / (relief adjustment)	3	390	393	(325)	536	211
Non Domestic Rates Receivable (net of discretionary and mandatory reliefs)	N/A	(30,569)	(30,569)	N/A	(16,626)	(16,626)
	(72,016)	(30,179)	(102,195)	(75,914)	(16,090)	(92,004)
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	50,346	2,744	53,090	52,873	2,763	55,636
- Hampshire Police and Crime Commissioner	8,200	N/A	8,200	8,692	N/A	8,692
- Hampshire Fire and Rescue Service	2,756	305	3,061	2,839	307	3,146
- Hart District Council	10,228	12,197	22,425	10,665	12,279	22,944
Payment with respect to central government share of NDR (net of allowable deductions)	N/A	15,246	15,246	N/A	15,349	15,349
Impairment of Debts/Appeals						
- write-off of uncollectable debts	150	(282)	(133)	0	0	0
- change in the impairment allowance for doubtful debts	46	123	170	403	800	1,203
- change in allowance for loss of income on appeals	N/A	(79)	(79)	N/A	563	563
Charge to the General Fund for allowable collection costs for non-domestic rates	N/A	99	99	N/A	97	97
(Surplus) or Deficit for Year	(290)	174	(116)	(442)	16,068	15,626

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
	2019/20	2019/20	2019/20	2020/21	2020/21	2020/21
	£000	£000	£000	£000	£000	£000
Contribution towards previous year's estimated surplus or deficit:						
- Hampshire County Council	(230)	24	(206)	153	(34)	119
- Hampshire Police and Crime Commissioner	(34)	N/A	(34)	25	N/A	25
- Hampshire Fire and Rescue Service	(13)	3	(10)	8	(4)	4
- Hart District Council	(47)	107	60	31	(151)	(120)
- Central Government	N/A	134	134	N/A	(188)	(188)
Movement on the fund	(614)	442	(172)	(225)	15,691	15,466
Opening fund balance	400	273	674	(214)	715	501
Closing fund balance	(214)	715	501	(439)	16,406	15,967

8 COLLECTION FUND

8.1 COUNCIL TAX

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

	2019/20	2020/21
	£	£
Hampshire County Council	1,236.87	1,286.28
Hampshire Police and Crime Commissioner	201.46	211.46
Hampshire Fire and Rescue Service	67.71	69.06
Hart District Council	171.84	176.84
Town and Parish Councils	79.44	82.60
	<u>1,757.32</u>	<u>1,826.24</u>

8 COLLECTION FUND

The amount of income generated in 2020/21 by each council tax band was as follows:

Band	Chargeable Dwellings	Band Multiplier	Band D Equivalent	Council Tax income per band £
A	477	6/9	318.00	597,266
B	1,440	7/9	1,120.10	2,103,767
C	6,894	8/9	6,127.70	11,509,022
D	7,852	9/9	7,851.70	14,747,032
E	7,262	11/9	8,875.20	16,669,365
F	6,512	13/9	9,406.10	17,666,500
G	3,657	15/9	6,095.60	11,448,732
H	226	18/9	451.00	847,066
			40,245.40	
	Class O Exempt Properties		603.80	
	Plus allowance for new properties and ending of discounts 0.5%		779.33	
	Less allowance for properties being demolished and additional discounts 0.01%		0.00	
	Assumed losses on collection 1.3%		(523.19)	
	Tax Base (equivalent Band D) approved by council		41,105.34	

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 2021 was £73,740,339 (£74,213,954 as at 31 March 2020)

The non-domestic rate multiplier for 2020/21 was 49.9 pence for qualifying properties of less than £51,000 rateable value and 51.2 pence for qualifying properties of more than £51,000 rateable value (2019/20 49.1 pence and 50.4 pence respectively).

9 GROUP ACCOUNTS

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.

10.0 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.

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.

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.

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.

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.

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.

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.

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.

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:

- (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.

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.

10 GLOSSARY

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: 07 DECEMBER 2021

TITLE OF REPORT: INTERNAL AUDIT PROGRESS REPORT Q2

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 2021 and October 2021.

2. OFFICER RECOMMENDATION

2.1 That the Internal Audit work completed between July 2021 and October 2021 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 was approved by the Committee in March 2021. The plan for 2021/22 is a reduced one, considering the impact of COVID-19 has had on internal audit work and the reduction in Internal Audit resource.

3.2 Four audit reports were issued between July and November 2021.

Housing Benefit – Carried over from 2020/21
Complaint Handling - 2021/22
Disabled Facilities Grants – 2021/22
Fraud Risk Assessment – 2021/22

3.3 Five audits are currently progress and six are due to commence in Q3/Q4

3.4 The Planning Performance audit is to be procured and is planned to commence in Q4.

3.4 Progress on internal audit reviews is shown below:

Audit	Planned	Scope agreed	Fieldwork in progress	Fieldwork complete	Draft report Issued	Expected completion dates	Completed	Notes
Housing Benefit	Carry over from 2020/21	Yes	Yes	Yes	Yes	n/a	Report Issued August 2021	
Complaints	Q1	Yes	Yes	Yes	Yes	n/a	Report Issued October 2021	
Fraud Risk Assessment	Q1	Yes	Yes	Yes	Yes	n/a	Report Issued November 21	
IT Controls	Q1	Yes	Yes	Yes	Yes	Dec 2021		
Waste / Street Cleaning	Q2	Yes	Yes			Jan 2022		
Financial Resilience	Q2	Yes				Feb 2022		Moved from Q2 to allow for actions to be progressed
Accounts Payable	Q2	Yes	Yes	Yes	Yes	Dec 2021		
Accounts Receivable	Q2	Yes	Yes	Yes		Dec 2021		
Main Accounting	Q2					Mar 2022		To be completed Q4

Disabled Facilities grants	Q2	Yes	Yes	Yes	Yes	n/a	Report issued November 21	
Planning Performance	Q2	Yes				Mar 2022		Procurement process commenced
Council Tax and NNDR	Q3	Yes	Commencing 1 st week in Dec			Feb 2022		
Treasury Management	Q4	Yes				Mar 2022		
Payroll	Q4					Mar 2022		
Housing Benefit	Q4					Mar 2022		

4. CONSIDERATIONS

4.1 Planned Work

During the period between July 2021 and November 2021 four reports were issued for:

- Housing Benefits (Carried over from 2020/21)
- Complaints
- Disabled Facilities Grants
- Fraud Risk Assessment

4.2 Unplanned Work

Resources from Internal Audit continue to be used to complete business grant post assurance checks and facilitate the test and trace payments. This work is anticipated to continue until summer 2022. Any audits from the 2021/22 audit plan which cannot be fulfilled by the existing resource will be procured in accordance with procurement procedures.

The cost of these reviews will be met from additional burdens funding.

4.3 Follow Ups

All high-risk recommendations are followed up with the responsible officer to ensure that the proposed action has been taken.

Progress of any actions taken are documented. If no progress has been made this will then be escalated.

Follow up work is completed on a quarterly basis, March, June, September and December.

A summary of the follow up work is shown below.

Audit	Issue	Responsible Officer	Due date	Status
Payroll 20-21	Resilience issues for payroll processing needs to be reviewed.	Head of Corporate Services	September 2021	Near completion Four staff are now able to make changes on payroll and training on leading sign off each month. Zellis upgrade underway with aim for completion end of December Risk now considered medium
Payroll 20-21	The starters and leavers framework needs to be fully reviewed to ensure the process is consistently applied.	Head of Corporate Services	Complete	Completed A starters and leavers reporting form now available on the corporate help desk - this is now embedded in council processes and regular reminders are made to officers to use the process
Payroll 20-21	The DBS framework needs to be put in place	Head of Corporate Services	August 2021	List of roles requiring DBS now collated. Difficulty reassigning named authority. Seeking project plan from Zellis to deliver DBS and reference checking service In progress
Payroll 20-21	The council is likely to not be fully complying with GDPR requirements.	Head of Corporate Services	April 2022	Completed DPIA means the scale of the risk has been identified, council still retaining data longer than required but risk is tolerated against risk of accidental deletion Risk now considered to be medium

4.4 **FRAUD**

- 4.5 The annual fraud risk assessment has been completed. See Appendix 4
- 4.6 Post assurance checks are commencing for business grants paid from November 2020 onwards. These checks are prescribed by Business, Energy & Industrial Strategy (BEIS). This work is expected to be ongoing until July 2022.
- 4.7 There are a small number of NFI grant matches from the first round of grant payments (March – September 2020) these are in the process of being reviewed.
- 4.8 National Fraud Initiative (NFI) Matches for Council Tax Reduction Scheme are being worked through by the Housing Benefit / Revenues teams. From 159 matches 136 have been processed with a value of £14,937 overpayments identified. A further 20 matches have recently been received and will be reviewed in due course
- 4.9 National Fraud Initiative (NFI) Matches for the creditors scheme is 88% complete. There are currently 18 matches being reviewed to date no fraud or error has been confirmed.
- 4.10 Council Tax single person discount records and electoral register records are to be submitted to the NFI database for matching in December 2021
- 4.11 Fraud and Cyber Security training for officers took place in November 2021.
- 4.12 There are currently 32 DWP referrals outstanding. Fraud work stopped for a period of time during Covid which has resulted in a backlog. The Capita fraud officer works closely with the DWP and follows these up on a regular basis.

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.
- 5.2 The corporate risk register was reported to Overview & Scrutiny in September 2021.
- 5.3 Key service risks are reported to service panels and summaries of these reports are reported to Overview & Scrutiny.

6. FINANCIAL AND RESOURCE IMPLICATIONS

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

Contact: Joanne Innes, 01252 774147 - joanne.innes@hart.gov.uk

APPENDICES

Appendix 1 - Housing Benefit

Appendix 2 – Complaint Handling

Appendix 3 - Disabled Facilities Grants

Appendix 4 - Fraud Risk Assessment

	Page
Section one: Executive summary	2
Section two: Recommendations	7
Appendices	13
1. Appendix one – Work performed	14
2. Appendix two – Follow up of 2019/20 findings	16
3. Appendix three – Analysis of overpayment debt and performance targets	18
4. Appendix four – Staff involved and documents reviewed	20
5. Appendix five – Assurance ratings	21

Status of report	
Draft issued for receipt of management responses	08 July 2021
Management Responses	12 August 2021
Final report issued	13 August 2021
Report to Audit Committee	August 2021

Distribution	
To (for action):	cc (for information)
Head of Corporate Services, Section 151 Officer	Audit Committee
Finance, Revenues & Benefits Client Officer, Hart DC	5Cs Client Relationship Director & Senior Client Executive (Operations)
Benefits Manager, Capita	

Conclusion

We reviewed controls around the management and operation of the housing benefits function. We provide a rating of **Partial Assurance with Improvements Required**, which is in line with the forecast rating. This means that both the design of the system and its effective operation need to be addressed by management.

Whilst our testing has identified some areas of good practice around the segregation of duties and approval of benefit payment parameters, and write offs, plus our sample testing found that benefit assessments were supported by relevant underlying evidence. We have however found continued control weaknesses in respect of incomplete procedural documentation, a high value of prior year overpaid debt, and consistent year on year under performance against the quality performance target.

This review has raised five recommendations, all of which are considered medium priority. All recommendations are detailed in Section Two.

Our review focussed on the core areas around housing benefit processing, including the assessment and monitoring of new benefit claims and in year changes to benefit claims, the quality assurance processes over such assessments, performance of housing benefits to general ledger reconciliations, monitoring of benefit overpayments and the processing and approval of write offs, plus the oversight and general contract monitoring processes over the Capita contract.

Housing Benefits Function

The housing benefit function is operated by Capita as part of the Five Councils Partnership. Capita works to contractual targets set by the Five Councils Partnership. Capita report their performance against each target, which in turn is monitored by the Five Council Partnership.

Day-to-day housing benefit assessment and activities, such as the assessment of new benefit claims and change of circumstances, review and follow up of overpayments and write offs, and conducting the quality assurance process of assessment is performed by Capita. Staff work together across the organisations to ensure that housing benefit procedures are fulfilled adequately for Hart District Council.

Housing Benefits Assessment

In response to the 2019/20 internal audit review, Capita introduced a procedure note in relation to the assessment of earned income. There are still however limited process notes and policy documents in respect of all other areas of assessment of housing benefit claims and processing of change of circumstances. Instead, the team at Capita use benefit regulation guidance to assist in the assessment process.

Staff receive induction training as new joiners, which takes place over a number of weeks, and includes training on key areas of assessment, such as overpayment processing, plus on the job support and coaching once live assessments are being undertaken.

Evidence to support assessments is retained on a document imaging system (information@work), which provides a full, accessible audit trail to all decisions taken.

Overpayments and Write Offs

During 2020/21, an overpayments team was put in place to drive the improvement and recovery of bad debt and action is being taken where claimants can be traced. The value of unrecovered overpayments remains high (£1,254,431) as at end March 2021. Of this, £1,082,136 relates to unrecovered debt dating back from 2006 to 2019. Further details are provided at **Appendix 3**.

The Council has a defined process in operation for the approval of all write offs. Write off processing is also subject to segregation of duties, and approval from Hart District Council.

Executive summary (cont.)

Quality Assurance

Quality assurance checks are in place at Capita and undertaken by the client team. At least a 10% check is undertaken on the processing of benefit applications and change of circumstances across all team members. All checks made are documented on a benefit checklist and spreadsheet, and corrective action taken, where necessary.

The Council produces an annual Housing Benefits Subsidy Return to the Department for Work and Pensions (DWP) which is subject to external audit checks. The 2019/20 return was certified in March 2021, in line with the deadline set by the DWP.

Payments and Reconciliations

Housing benefit parameters are updated, checked and subject to approval annually, including 2020/21 to ensure compliance with the requirements set by the DWP, and allow the correct payment of benefit in line with the regulations set.

A monthly reconciliation is undertaken between the Housing Benefits system and the general ledger (Integra) by the Capita accountancy team to ensure that payments are being appropriately raised and processed. Each reconciliation is subject to a segregation of duties check and approval. Our review identified that there are continued issues with the timeliness of the completion of this reconciliation in 2020/21, with the number of days to complete this from the 1st of each month ranging from 9 days to 77 days.

Website and Fraud

The Council's website contains advice on housing benefit as well as contact details for the housing benefit team and information on how to report housing benefit fraud. An electronic housing benefit application, along with guidance on what documents are required to submit an application, and this can be accessed from the website, along with an electronic change of circumstances form and income and expenditure form. A PDF printable version is also available.

An up to date Fraud and Corruption, and Anti Whistle blowing policy is in place, with the latest review taking place in April 2020.

Governance and Reporting

As part of the Five Council Partnership contract, Capita has performance targets to meet, monitor and report against throughout the year. An annual review takes place of the performance indicators built into the contract, and the assessment of the weighting of any penalties attributed to the non achievement of these undertaken, and updated as necessary.

Each month Capita shares a spreadsheet outlining their performance against each of the contract targets set. This is then monitored and challenged at the Five Council Service Improvement Group each month. Any key points or issues identified from this group are fed upwards to the Joint Tactical Board, a management level board, and then the Strategic Management Board, and Joint Committee.

A summary of performance against key targets for 2020/21 can be found at **Appendix 3**.

Executive summary (cont.)

Covid-19

Housing Benefit staff at Hart District Council and Capita adapted well to the remote working situations brought about by Covid-19. Housing Benefit activities are performed mainly on Capita, Information@work and Excel. A high proportion of work performed by staff at Capita was undertaken remotely prior to Covid-19, and all other work is undertaken using electronic systems, and all documentation retained on the relevant document imaging system or uploaded on to the shared drive, which is easily accessible remotely. As such our review did not identify any areas where the control environment had weakened as a result of the Covid-19 pandemic.

Our testing found that the Council managed to effectively maintain segregation of duties through remote approval processes.

Follow up of findings

Six findings around housing benefits were identified in the 2019/20 internal audit report. We followed up these findings as part of our testing and found that one recommendation had been addressed, and five recommendations (relating to the lack of written policies and procedures in relation to benefit assessment, delays in the monthly reconciliation process between benefits and the ledger, performance continuing to be below target for assessment accuracy, level of overpayment debt, and the age of the debt recovery and action policy) have been superseded with instances of non-compliance identified in these areas in 2020/21. See **Appendix 2** for further details.

Background

The housing benefit scheme is a national scheme administered at a local level by the Council on the behalf of the DWP. It is a means-tested service where the Council can pay all, or part of, a household's rent or Council tax, or both. The government provides the Council with housing benefit subsidy which reimburses the most of the housing benefit payments made to residents plus an allowance to cover the costs of administering the scheme.

Universal Credit is now operational for some postcode areas in the Hart District area and for residents in these areas, support for housing costs for most new claims are now covered by Universal Credit and housing benefit is not payable.

The processing of Housing Benefit transactions is undertaken by Capita under Lot One of the Five Councils partnership.

The Covid-19 outbreak has implications for financial governance across local government, including members of the finance team and outsourced providers working from home. This could impact on the level of segregation of duties possible, and meaning physical authorisation is no longer possible. During these times of change, it is important that the Council maintains a robust control environment to protect its resources.

Executive summary (cont.)

Summary of good practice

Our review identified the following instances of good practice:

- ✓ Approval of discretionary housing payments (DHP): The Council has a process in operation for the approval of DHP. Our testing of a sample of 10 DHP applications made in 2020/21 identified that all 10 had been subject to appropriate assessment and approval.
- ✓ New claim assessments: Our testing of a sample of 20 new claims made in 2020/21 identified that sufficient documentation and supporting evidence had been received to support all of the underlying claims, and that the claims had been subject to assessment before payment made.
- ✓ Change of circumstance (COC) assessment: Our testing of a sample of 20 COC assessments made in 2020/21 identified that sufficient documentation and supporting evidence had been received and retained to support all changes processed.
- ✓ Write off approval: Write off processing is also subject to adequate segregation of duties and approval. Our testing of a sample of 10 write offs raised in 2020/21 identified that all 10 had been subject to appropriate segregation of duties and approval.
- ✓ Council website information: The Council's website contains clear advice on housing benefit as well as contact details for the housing benefit team and information on how to report housing benefit fraud.
- ✓ Housing benefit parameters: Housing benefit parameters are updated, checked and subject to approval on an annual basis to ensure compliance with the requirements set by the DWP. Evidence provided identifies that the parameters uploaded in 2020/21 were subject to appropriate sign off.
- ✓ Quality checks: Quality assurance checks are in place and undertaken by the Capita client team. At least a 10% check is undertaken on the processing of benefit applications and change of circumstances. All checks made are documented on a benefit checklist and spreadsheet.
- ✓ Fraud and corruption: An up to date Fraud and Corruption, and Anti Whistle blowing policy is in place, with the latest review taking place in April 2020.

Executive summary (cont.)

Summary of recommendations and observations

- **Policy and procedure notes:** Limited policies and procedures are in place in relation to the processing of benefit applications. Instead, reliance is placed upon the benefit regulations and staff induction training. **Recommendation One.**
- **Prior year overpayments:** The value of prior year overpayments remains high. As at March 2021, unrecovered housing benefit overpayment debt amounted to £1,254,431. Of which only £172,295 related to overpayments raised in 2020. The remaining value of £1,082,136 relates to unrecovered debt dating back from 2006 to 2019; £319,395 of the £1,082,136 being over five years old. **Recommendation Two.**
- **Performance targets:** Capita continue to perform below target in terms of client quality checks for Hart Council. In 2020/21, Capita were set a target of 96% in terms of quality accuracy. The performance achieved was 3% below this target at 92.75% (92.87% in 2019/20). **Recommendation Three.**
- **Debt recovery and action policy update:** The Debt recovery and action policy is out of date. Inquiry with the debt management team identified that work is underway to refresh this policy, and align this to best practice seen across other authorities in the Five Council agreement.. **Recommendation Four.**
- **Housing benefits to general ledger reconciliation:** Our review identified that the housing benefits to general ledger reconciliation continues to be undertaken in an untimely manner.

We summarise in Section Two below the number of recommendations raised as a result of our review (high priority represents the most urgent and high risk category and low priority represents the least urgent and lowest risk category).

	High	Medium	Low	Total
Made	0	5	0	5
Accepted	-	5	0	5

Acknowledgement

We would like to take this opportunity to thank your staff for their assistance during this review.

Recommendations


Recommendations

This section summarises the recommendations we have made. We have given each of our recommendations a risk rating as explained below.


Priority rating for recommendations raised		
<p>● High Priority (one)</p> <p>A significant weakness in the system or process which is putting you at serious risk of not achieving its strategic aims and objectives. In particular: significant adverse impact on reputation; non-compliance with key statutory requirements; or substantially raising the likelihood that any of your strategic risks will occur. Any recommendations in this category would require immediate attention.</p>	<p>● Medium Priority (two)</p> <p>A potentially significant or medium level weakness in the system or process which could put you at risk of not achieving its strategic aims and objectives. In particular, having the potential for adverse impact on your reputation or for raising the likelihood of your strategic risks occurring.</p>	<p>● Low Priority (three)</p> <p>Recommendations which could improve the efficiency and/or effectiveness of the system or process but which are not vital to achieving your strategic aims and objectives. These are generally issues of good practice that the auditors consider would achieve better outcomes.</p>

#	Priority	Recommendation	Management Response / Officer and Due Date
1	<p>● Med</p>	<p>Policy and Procedure Notes</p> <p>There are limited written policies and procedures in relation to the assessment of benefit applications.</p> <p>The Housing Benefit Manager provided confirmation that staff are subject to induction which covers benefit assessment, and can access benefit regulations to help with assessment decisions. A procedure note on the assessment of earnings has also been produced during 2020/21.</p> <p>A similar recommendation was raised in the 2019/20 internal audit review, and limited progress has been made to date.</p> <p>It is noted that our sample testing of 20 new benefit claims, and 20 change in circumstances did not identify any issues in relation to the retention of evidence to support the assessments made.</p> <p>Risk</p> <p><i>Limited standardisation of benefit assessment.</i></p> <p><i>Inconsistent and poor quality assessments are made.</i></p> <p>Recommendation</p> <p>Formal policies and procedures should be introduced for all areas of benefit assessment to allow the consistent and accurate evaluation and processing of benefit claims. This could include extracts from the relevant benefit regulations.</p> <p>All procedures and policies introduced should be accessible for all staff members, form part of the training process, and be subject to a defined review and refresh timetable.</p>	<p>Management Response:</p> <p>Agreed. We are in the process of reviewing the areas that require policy and procedure notes and will ensure that these are produced and agreed by the end of March 2022.</p> <p>Responsible Officer:</p> <p>Benefits Manager, Capita</p> <p>Due Date:</p> <p>March 2022</p>


Recommendations (cont.)

#	Priority	Recommendation	Management Response / Officer and Due Date
2	 Med	<p>Prior Year Overpayments</p> <p>The value of prior year overpayment remains high. As at March 2021, unrecovered housing benefit overpayment debt amounted to £1,254,431. Of which only £172,295 related to overpayments raised in 2020. The remaining value of £1,082,136 relates to unrecovered debt dating back from 2006 to 2019; £319,395 of the £1,082,136 being over five years old.</p> <p>Whilst Capita put in place an overpayments team to improve the management and recovery of prior year debt during 2020, and our testing identified that action is being taken to recover prior year debt, given the age of a high proportion of this debt, a decision should be taken as to the likelihood of full recovery, and potential write off.</p> <p>Risk</p> <p><i>High level of time investment in investigating debt with low probability of recovery.</i></p> <p><i>Exposed debt with limited opportunity to recover.</i></p> <p>Recommendation</p> <p>The Council should review the level and value of aged debt, and make a decision as to the probability of recovery of this, with consideration of the time cost required to pursue such recovery. Where there is limited value in continuing to pursue old year debts, write off of this debt should be considered.</p> <p>A clear policy for the recovery of prior year debt should be outlined, which should be actively monitored to ensure that future levels of debt are reduced, and active decisions taken to ensure that prior year debt levels remain low and actively manageable.</p>	<p>Management Response:</p> <p>Agreed. We were restricted to the actions we could do, due to Covid, until September 20 at which point we could only go to final notice. We are also effected by the access to the courts.</p> <p>The value still remains high, however, most of the invoices are in some level of recovery.</p> <p>Responsible Officer:</p> <p>Ryan Tee, Overpayment & Fraud Team Leader, Capita</p> <p>Due Date:</p> <p>September 2021</p>


Recommendations (cont.)

#	Priority	Recommendation	Management Response / Officer and Due Date
3	 Med	<p>Performance Targets</p> <p>Capita continues to perform below target in terms of client quality checks for Hart Council. In 2020/21, Capita were set a target of 96% in terms of quality accuracy. The performance achieved was 3% below this target at 93% (93% in 2019/20).</p> <p>Performance is reported monthly whereby Capita shares a spreadsheet outlining performance against each of the contract targets. This is then monitored and challenged at the Five Council Service Improvement Group monthly. Any key points or issues identified from this group are fed upwards to the Joint Tactical Board, a management level board, and then the Strategic Management Board, and Joint Committee.</p> <p>It is noted that our testing of a sample of 20 new claims and 20 COC assessments made in 2020/21 identified that sufficient documentation and supporting evidence had been received to support all of the underlying claims, and that the claims had been subject to assessment before payment made.</p> <p>Our review also identified that quality assurance checks are undertaken on a sample of at least 10% of processing throughout the year.</p> <p>Risk</p> <p><i>Inaccurate claim assessments made and incorrect benefits payments made resulting in an increase in local authority errors and benefit overpayments.</i></p> <p><i>Reduced customer satisfaction.</i></p> <p><i>Non compliance with contractual obligations.</i></p> <p>Recommendation</p> <p>The Council should continue to scrutinise and challenge Capita on the quality metric, plus continue to promote quality improvement and support Capita to put in place measures to ensure that the appropriate level of quality is achieved.</p> <p>Consideration should be given to the quality target set, and an assessment made as to whether this is still deemed to be appropriate and achievable.</p> <p>Performance should continue to be reported across the governance structure to ensure that this continues to be transparent and inform future decision making.</p>	<p>Management Response:</p> <p>Agreed. Capita have increased the level of internal checking from 10% to 20% and introduced a checklist for the Assessment Officers. As a result Capita's current level of accuracy for the first four months of this financial year is 96.17%.</p> <p>Responsible Officer:</p> <p>Benefits Manager, Capita</p> <p>Due Date:</p> <p>September 2021</p>

Recommendations (cont.)

#	Priority	Recommendation	Management Response / Officer and Due Date
4	 Med	<p>Debt Recovery and Action Policy</p> <p>The Debt recovery and action policy is eight years out of date, having last been reviewed in December 2012. Inquiry with the debt management team identified that work is underway to refresh this policy, and align this to best practice seen across other authorities in the Five Council agreement.</p> <p>A draft of the Corporate Debt Recovery Policy was taken to Overview and Scrutiny Committee in June 2021. This refresh should be finalised and a updated, consistent policy published and shared across the Hart Council and Capita teams.</p> <p>Risk</p> <p><i>Inconsistent and out of date processes and controls.</i></p> <p><i>Debt recovery actions not taken in line with Council expectations.</i></p> <p>Recommendation</p> <p>The draft Corporate Debt Recovery Policy should be finalised, approved and published as soon as possible.</p> <p>The Council should review its governance process, and allocate a clear responsibility for ensuring that a policy refresh deadline in put in place, monitored and adhered to going forward.</p> <p>Teams should receive update training on the updated policy, and procedures updated to ensure full operational compliance with the revised policy.</p>	<p>Management Response:</p> <p>Agreed. We are working to towards an agreed policy across 5Cs. Provisional completion date of March 2021.</p> <p>Responsible Officer:</p> <p>Ryan Tee, Overpayment & Fraud Team Leader, Capita</p> <p>Due Date:</p> <p>March 2021</p>

Recommendations (cont.)

#	Priority	Recommendation	Management Response / Officer and Due Date
5	 Med	<p>Housing Benefits to General Ledger Reconciliation</p> <p>Our review identified that the housing benefits to general ledger reconciliation continues to be undertaken in an untimely manner. The number of days to complete this reconciliation each month in 2020/21 from the 1st of each month ranges from 9 days to 77 days.</p> <p>Risk</p> <p><i>Delays in the identification of inconsistencies and errors between the HB system and the general ledger.</i></p> <p>Recommendation</p> <p>A target in respect of the number of days required to complete the general ledger reconciliation should be agreed and formalised in an updated procedure, plus responsibility for the achievement of this outlined.</p> <p>Performance against this target should be reported, and the reasons for any delays outlined.</p>	<p>Management Response:</p> <p>Agreed. In April and May we have the time consuming task of pulling together the Statement of Accounts for the previous year which is why we can expect some delays. As well as the Statement of Accounts, we have also been supporting local business receive their grant allocation due to the continuous impact of COVID. In light of the above factors we caught up our delayed reconciliations for April and May and our average time to complete the reconciliation between June 2020 and March 2021 was 23.9 days.</p> <p>Responsible Officer:</p> <p>Jason Collier, Senior Accountant</p> <p>Due Date:</p> <p>September 2021</p>

Appendices

Summary of work performed

Below we set out the work undertaken against each of our objectives.

Objective	Summary of work undertaken
<p>Objective One</p> <p>Design of Processes</p>	<p>We reviewed the design of controls in place by completing the following:</p> <ul style="list-style-type: none"> - Gained an understanding of the processes and controls in place regarding the assessment and awarding of Housing Benefit by inquiry with the Benefit Manager. - Reviewed the new starter training induction pack, and the earned income procedure note introduced in 2020. - Completed a walkthrough of one new claim assessment and one change of circumstance case to confirm that the processes operated are in line with expectations. - Reviewed the DHP spreadsheet tracker, and through inquiry with the Benefit Manager understood the process for the assessment and approval of DHP. - Gained an understanding of the quality assessment checks undertaken each month, and confirmed the frequency that these were undertaken in 2020/21, and that Capita undertook at least the required 10% checks. - Evaluated the annual process for updating benefit system parameter. - Reviewed the monthly procedure in place for reconciling the benefits system to the general ledger, and completed a walkthrough of this process for one month. - Assessed the process for monitoring and recovering overpaid benefit with the Overpayment and Fraud Manager, and completed a walkthrough of one case. - Evaluated the process in place for the approval of write offs of aged debt, and completed a walkthrough of one case.
<p>Objective Two</p> <p>Operational Effectiveness</p>	<p>We sample tested the following controls to ascertain how effectively the Council's procedures operate:</p> <ul style="list-style-type: none"> - We test checked a sample of 20 new claims received in 2020/21 to confirm that assessments have been appropriate and supported by underlying evidence. - We have performed sample testing on 20 change of circumstances processed in 2020/21 to confirm that the change made could be supported by appropriate, underlying evidence. - We test checked a sample of 10 DHP applications received in 2020/21 to confirm that assessments have been appropriate, supported by underlying evidence and in line with guidance. - We reviewed a sample of 10 overpayments raised in the current year, and 10 overpayments raised in the prior year to test check that recovery action is taking place in line with the Debt and Recovery policy, and evidenced clearly. We have also completed a year on year analysis of the level of debt outstanding and the age of this debt. - We tested a sample of 10 write offs made in 2020/21 to confirm that appropriate approval was received prior to the write off being made, and that evidence of the write off was retained. - We re-performed a sample of 2 reconciliations completed in 2020-21 to confirm that they have taken place in a timely manner and have been subject to appropriate approved.

Summary of work performed (cont.)

Objective	Summary of work undertaken
<p>Objective Three Governance and Reporting</p>	<p>We reviewed how Housing Benefits is reported through the organisation and assessed the suitability of content reported at senior management meetings and determine whether there is suitable challenge and oversight over performance against key metrics at the senior management level and actions taken to mitigate under-performance by:</p> <ul style="list-style-type: none"> - Analysing the monthly performance data compiled by Capita for August 2020 and March 2021, and comparing this to the data and performance discussed at the monthly Five Council Service Improvement Group. - Reviewing the governance structure in place to understand the reporting requirements of the Five Council Improvement Group within the Committee Structure, and walking through this process for August 2020 and March 2021, to confirm that performance was appropriately monitored, challenged and reported.

Follow up of 2019/20 findings

As part of our review, we followed up on findings from the 2019/20 internal audit review of housing benefits. The relevant findings and current status have been included below.

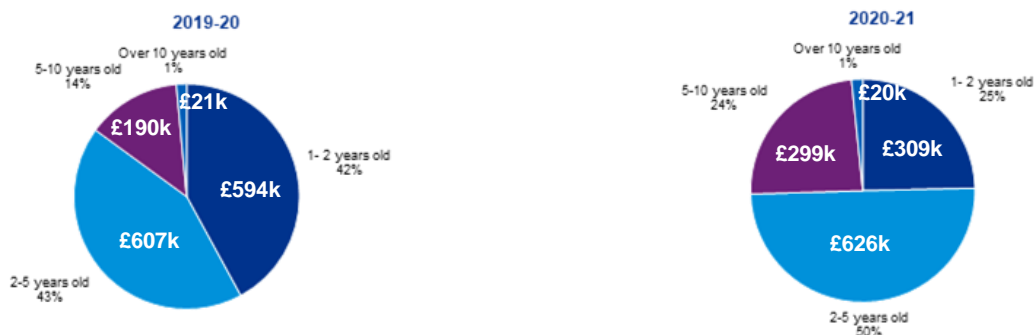
No.	Risk	Finding	Management Response	Follow up May/June 2021
1.	● Med	Written procedures in place for Capita staff who process housing benefit applications were not provided by Capita.	We train and mentor all new staff to the contract who also have a senior member of staff for advice. All staff have access to the appropriate legislation and guidance material. Additionally, we are working towards harmonised procedure notes across all five Councils.	Superseded A procedure note has been produced in June 2020 for the assessment of earned income. However, limited other policies and procedures are in place in relation to the processing of benefit applications and reliance is placed upon the benefit regulations and staff induction training. Superseded. See recommendation one.
2.	● Med	Supporting documentation is not always provided and stored on Information@Work.	It would not be possible to process an application without supporting evidence. However, rental evidence is held in many formats and it maybe that in these instances the information has not been saved correctly on the EDMS system i.e. the result of a telephone call. Staff will be reminded to ensure that all information is accurately recorded.	Addressed Our testing checking of a sample of 20 new claims and 20 change of circumstances raised in 2020-21 identified that supporting documentation could be located in all cases.
3.	● Med	The Council's monthly reconciliation between Integra and Academy is not completed in a timely manner.	Reconciliations will be completed in a timely manner.	Superseded. Our review identified that this reconciliation has taken place for all periods in 2020/21, however completion continues not to be undertaken in a timely manner. The number of days to complete this reconciliation in 2020/21 from the 1 st of each month ranges from 9 days to 77 days. Superseded. See recommendation five.

Follow up of 2019/20 findings (cont.)

No.	Risk	Finding	Management Response	Follow up May 2021
4.	● High	New housing benefit claims and change of circumstance cases are not being processed in accordance with required performance targets.	We are working with the client to identify any training needs. We are monitoring all returns and feeding all errors back to the relevant team member. All staff are aware of the contractual requirement and the need to process claims accurately and ensure that awards are correct. There are also contractual discussions underway to ensure that the Quality Assurance process is fair and reasonable and consistent across all 5Cs.	Superseded As at 31 March 2021, performance against the accuracy BVPI is still below target. Capita are achieving a processing accuracy of 92.75% at 31 st March 2021 (92.87% at 31 st March 2020), against a target of 96%. However, this continues to be monitored by the 5C's Service Improvement Group, and is communicated through the governance structure. Superseded. See recommendation three.
5.	● High	Housing Benefit overpayment debts raised before April 2019 are not being sufficiently dealt with.	An Overpayments Team has now been put in place to improve the management and recovery of prior year debt.	Superseded An overpayments team is now in place, lead by Ann Edwards. Our test checking of a sample of overpayment debts found in all cases selected that action is being taken to attempt to recover the debt. However, the level of debt relating to prior year overpayment is still high, and a decision should be taken as to the likelihood of full recovery, and potential write off. Superseded. See recommendation two.
6.	● Med	The debt recovery and management policy is considered to be out of date. It is dated December 2012.	The Debt Management Policy will be reviewed and updated. Will be carried out as part of the transition of the finance workstream from Capita to Hart.	Superseded Inquiry with the debt management team identified that work is underway to refresh this policy, and align this to best practice seen across other authorities in the 5 Council agreement. A draft of the Corporate Debt Recovery Policy was taken to Overview and Scrutiny Committee in June 2021. This refresh should be finalised and a updated, consistent policy published and shared across the Hart team. Superseded. See recommendation four.

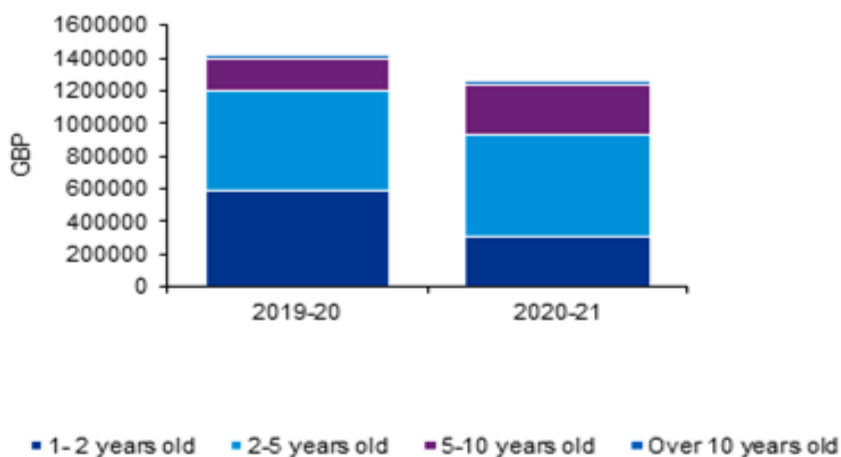
Analysis of overpayment debt

As part of our review, we performed analysis over the level of current year and prior year overpayment debt, both by age and value. This is presented in the charts below:



Whilst the overall value of outstanding debt has reduced year on year by £158k, the level of outstanding debt still stands at £1.2m as at 31 March 2021. Progress has been made in reducing the level of debt under two years old year on year, but a high value of prior year debt still exists. The majority of this debt as at 31 March 2021 is over two years old (£945k), with a quarter of this debt being over five years old (£319k).

Total outstanding Debt

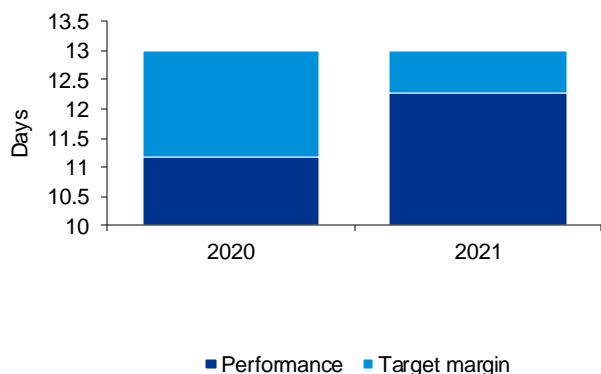


Our sample testing of ten current year overpayment debts and ten prior year overpayment debts identified that action was been taken to pursue each debt by the new debt and recovery management team. However, given the age of a high proportion of this debt, a decision should be taken as to the likelihood of recovery, and potential write off considered. **See recommendation 2.**

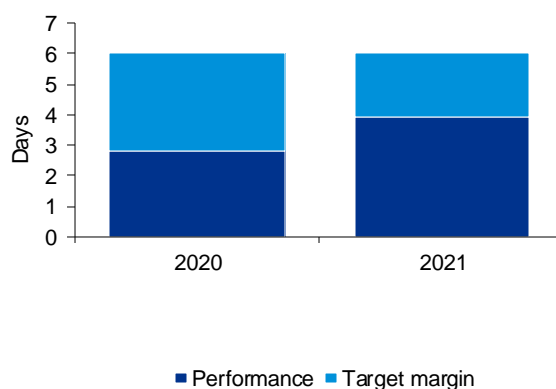
Analysis of performance targets

As part of our review, we performed analysis over Capita’s 2020/21 performance against the contractual targets set as part of the Five Councils agreement. This is presented in the charts below:

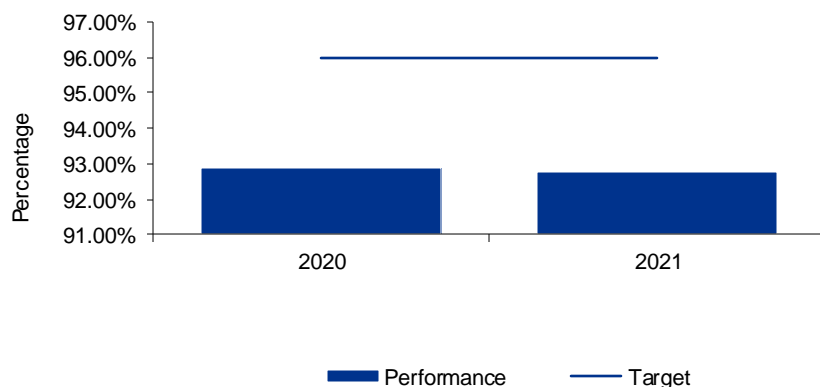
New claim processing time



Change of circumstances processing time



Local client checks - quality



There are three main housing benefits performance targets monitored throughout the year (new claim processing time, change of circumstances/COC processing time, and local client quality checks).

In the current and prior year, Capita is exceeding the targets set in terms of new claim and COC processing times, and continue to processes claims ahead of expectation.

However, in the current year and prior year, Capita continues to perform below target in terms of client quality checks. In 2020/21, Capita was set a target of 96% in terms of quality accuracy. The performance achieved was 3% below this target at 92.75% (92.87% in 2019/20).

Performance is reported monthly whereby Capita shares a spreadsheet outlining performance against each of the contract targets set. This is then monitored and challenged at the Five Council Service Improvement Group each month. Any key points or issues identified from this group are fed upwards to the Joint Tactical Board, a management level board, and then the Strategic Management Board, and Joint Committee.

Given the continued non achievement of the quality metric, the Council should continue to scrutinise and challenge Capita in this area, and continue to promote quality improvement so that Capita put in place measures to ensure that the appropriate level of quality is achieved. **See recommendation 3.**

Staff involved and documents reviewed

As part of our review, we held discussions with staff throughout the Council, including:

Name	Job title
	Benefits Manager, Capita
	Head of Corporate Services, Section 151 Officer
	Senior Technical Officer, Capita
	Overpayment & Fraud Officer, Capita
	Overpayment & Fraud Team Leader, Capita
	Hart District Council
	5Cs Client Relationship Director & Senior Client Executive (Operations)

During the course of the review, we have reviewed a number of sources of Council information including the following:

- Discretionary housing payments schedule and approval spreadsheet.
- Capita system datasets.
- Info@work – Documents viewed to support benefit application and change of circumstances sample testing.
- Housing Benefit overpayments listing.
- Write off listing, and schedule of approvals.
- Template Housing Benefit application form, and DHP application form.
- Overpayment policies and procedures.
- Control account reconciliations.
- Quality assurance checking spreadsheet.
- Benefit parameter screenshots and approval 2020-21.
- Signed, HBAP Accountant Report 2019-20.
- Hart District Council website – housing benefits section
- Anti fraud and corruption policy
- Whistle blowing policy

Assurance ratings

We have used the following as the basis of the levels of assurance that we provide you with (although it should be noted that these represent an indicative approach as the overall assurance provided is a matter of professional judgement).

Assurance level	Definition
Significant assurance	Means the system is well designed and only minor low priority recommendations have been identified related to its operation. Might be indicated by priority three only, or no recommendations (i.e. any weaknesses identified relate only to issues of good practice which could improve the efficiency and effectiveness of the system or process).
Significant assurance with minor improvement opportunities	Means the systems is generally well designed however minor improvements could be made and some exceptions in its operation have been identified. Might be indicated by one or more priority two recommendations. (i.e. there are weaknesses requiring improvement but these are not vital to the achievement of strategic aims and objectives - however, if not addressed the weaknesses could increase the likelihood of strategic risks occurring).
Partial assurance with improvements required	Means both the design of the system and its effective operation need to be addressed by management. Might be indicated by one or more priority one, or a high number of priority two recommendations that taken cumulatively suggest a weak control environment. (i.e. the weakness or weaknesses identified have a significant impact preventing achievement of strategic aims and/or objectives; or result in an unacceptable exposure to reputation or other strategic risks).
No assurance	Means the system has not been designed effectively and is not operating effectively. Audit work has been limited by ineffective system design and significant attention is needed to address the controls. Might be indicated by one or more priority one recommendations and fundamental design or operational weaknesses in the area under review. (i.e. the weakness or weaknesses identified have a fundamental and immediate impact preventing achievement of strategic aims and/or objectives; or result in an unacceptable exposure to reputation or other strategic risks).

We have also provided the following definitions for the priority of the recommendations that we may raise within our reports:

Priority	Description
Low – priority three	<p>Recommendations which could improve the efficiency and / or effectiveness of the system or process but which are not vital to achieving your strategic aims and objectives. These are generally issues of good practice that the auditors consider would achieve better outcomes.</p> <p>For example in operational terms the issue may only affect a single section or process, i.e. there is little impact on overall operational control arrangements. Alternatively, for example, in financial terms the impact is low or non-existent.</p>
Medium – priority two	<p>A potentially significant or medium level weakness in the system or process which could put you at risk of not achieving your strategic aims and objectives. In particular, having the potential for adverse impact on your reputation or for raising the likelihood of your strategic risks occurring.</p> <p>For example in operational terms the issue has significant effect on operations at a team/division level only, i.e. there is only a minor impact outside the effected team/division. Alternatively, for example, in financial terms the impact is up to 5% of annual revenue.</p>
High – priority one	<p>A significant weakness in the system or process which is putting you at serious risk of not achieving your strategic aims and objectives. In particular: significant adverse impact on reputation; non-compliance with key statutory requirements; or substantially raising the likelihood that any of your strategic risks will occur. Requires immediate attention.</p> <p>For example in operational terms the issue has major effects on operational procedures throughout the organisation. Alternatively, for example, in financial terms the impact exceeds 5% of annual revenue or 5% of the value of the capital base.</p>



INTERNAL AUDIT REPORT	
Area of Review	Complaint Handling
Contact Officer	Audit Manager
Date	October 2021
Version	Final

1. **BACKGROUND**

As part of the 2021/22 Internal Audit plan, we carried out a review of the key controls in place around the way in which the Council handles complaints from residents and other stakeholders.

Complaint handling is the responsibility of all services. The purpose of this audit is to review controls in place, highlighting any weaknesses in process or compliance and making recommendations where improvements could be implemented. Testing has been carried out on a sample basis.

2. **SCOPE OF THE REVIEW**

We have reviewed the policies and processes in place for officers to guide them when dealing with complaints. We have performed walkthrough testing, where appropriate, and assessed the effectiveness of internal controls and ensure risk is managed effectively.

Specific elements of the review have included:

- Staff understanding of complaints policy.
- Availability of the policy
- Complaint statistics and reporting
- Review lessons learnt by services from the complaints process.
- Communication and signposting of the process to the public
- The actual receiving and recording of complaints
- We have reviewed a sample of complaints and check compliance with the policy
- We have reviewed the policy around vexatious complaints
- We have reviewed ombudsman complaints raised in the last 12 months.
- We have reviewed the Council's definition of complaints

3. CONTROL OBJECTIVES

The scope of this review has encompassed the following control objectives:

Control Objectives	
1	To ensure that officers are aware of the complaints policy and can explain and signpost service users to the procedures.
2	To review the means by which complaints are received and recorded.
3	To ensure that the 'step system' for complaints is being followed, documented and the timescales adhered to
4	To ensure that vexatious, persistent, and unreasonable complaints are dealt with as per policy.
5	To ensure that Ombudsman complaints are dealt with as per policy.
6	To review complaint statistics and ensure that these are reviewed, reported and lessons learnt are implemented.

4. AUDIT APPROACH

Our audit approach to this review has been to:

- Obtain and understand 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

5.1. The level of assurance of this review is **limited assurance**.

This level of assurance is based on the following key findings:

- We did not find a consistent and corporate approach to identifying and recording complaints
- Some officers appeared unconfident in executing the complaints process
- Our sample testing found that complaints were not always dealt with in a timely manner
- Our testing found that complaints were not always addressed effectively at the first stage
- There is no corporate monitoring of or reporting of complaint statistics
- Lessons learnt and best practice are not considered as part of the complaints process

5.1.2 This report seeks to highlight some of the main issues and assist in the development of an improvement plan.

6. SUMMARY OF IDENTIFIED RISKS AND RECOMMENDATIONS TO BE AGREED WITH MANAGEMENT

#	Risk	Issue identified	Risk Assessment	Recommendation	Management Response / Mitigation	Responsible Officer	Target Date
1	Inconsistent Complaint handling	<p>The current policy needs to be reviewed and updated</p> <p>This review should consider complaints received via social media</p> <p>There are no complaint handling process maps in place for officers to work to and use for reference</p>	Medium	<p>It is recommended that when the policy is updated that the feedback from the change champions is taken into consideration in the re-draft of the policy.</p> <p>Review the need for a process map for officers to use</p>	<p>Agree to be reviewed</p> <p>In the first instance the Change Champions will review ahead of consideration by Management Team.</p> <p>Will be brought to Cabinet for approval</p>	Joint Chief Executive	April 2022
2	Inconsistent complaint handling	The complaints policy is not easily accessible to officers on SharePoint	Low	Ensure that the policy is accessible and that officers know where to find it	<p>Actioned</p> <p>This will also be covered in the training</p>	Joint Chief Executive	Completed
3	Complaints are not identified, recorded and monitored	<p>There are inconsistencies in the recording of complaints with records not kept up to date and evidence of response not readily available.</p> <p>Vexatious complaints are not recorded centrally.</p> <p>There is no central record monitoring complaints</p>	Medium	That a corporate review of how complaints are recorded and monitored	<p>This flows on from an update and refresh to the complaint policy.</p> <p>Identification of appropriate mechanisms across the organisation have already identified and need to be progressed</p>	Change and Digital Manager	April 2022

4	Complaints are not dealt with effectively	Not all officers are aware of their responsibility to be aware of and use the complaints policy Complaints training has not been undertaken in recent years.	Medium	Once the complaints process and policy has been reviewed that officer training takes place on complaint handling	Once the Policy has been updated and refreshed, the Council will provide training to all staff	Joint Chief Executive	April 2022
5	Complaints are not dealt with in a timely manner and in line with the complaints policy	There was evidence to suggest that complaints were not being responded to in a timely manner or in some cases no evidence of a response	Medium	Officers are reminded of their responsibilities in the handling of complaints	The training to all staff (action 4) will highlight the expectations and obligations on staff to respond in a timely manner. Additionally, it is anticipated that the new system for recording and monitoring complaints will highlight any complaints not responded to in an appropriate timescale (with escalations where necessary)	Joint Chief Executive	April 2022
6	Poor governance and reporting of complaints	Currently there is no reporting of complaint statistics to either management or members	Medium	Introduce complaint reporting and monitoring in Management meetings and in service panels	The system (action 3) will provide for monitoring and reporting on complaint processes	Change and Digital Manager	April 2022
7	Service improvements not recognised or implemented	There is a lack of awareness in teams of service complaints Trends are not monitored Lessons learnt and service improvements are not	Medium	Include the need for reviewing complaints in any officer training Review how to best share trends	The system (action 3) will provide for trend monitoring as will any key learnings from complaints.	Change and Digital Manager	April 2022

		reviewed and shared as best practice					
8	Customers are not clear on the complaints process	Officers do not readily offer the opportunity of formalising a complaint process The complaint information on the Hart website is in the 'Feedback' section and it is not obvious that this is where you would go to find information on how to make a complaint.	Low	Include this topic in complaints training Consider the current location of the complaint information on the website and assess if this is accessible for residents	The training to all staff (action 4) will highlight to staff the need to share with our customers our complaints policy as part of the appropriate feedback from our residents. The location of the complaint information will be reviewed as part of the action plan	Joint Chief Executive	April 2022
9	Non-compliance with GDPR	The data retention does not specify the amount of time complaint records should be held for	Medium	Specify the data retention for complaints on the data retention schedule	The data retention policy has been updated to include retention for complaints (Sept 21)	Data Protection Officer	Closed
10	Inconsistent complaint handling standards	Where services are outsourced, there is no consistent approach to ensuring complaints are handled as per the Hart complaints policy – consideration should be given to how officer awareness, recording, monitoring and reporting of these complaints	Medium	Ensure that as part of the governance processes for outsourced services that complaint handling is recorded monitored and reported correctly	Once the policy has been refreshed and updated, it will be shared with all key partners who provide services on behalf of Hart District Council	Joint Chief Executive	February 2022

7. SUMMARY OF FINDINGS

7.1 Control Objective One:

To ensure that officers are aware of the complaints policy and can explain and signpost service users to procedures.

7.1.1 There is a Compliments, Comments and Complaints policy in place created December 2012 with an effective date of February 2019 - review date of March 2021.

7.1.2 The Change Champions reviewed the complaints process in June 2021 their findings are shown below:

- There is an inconsistency in the management of complaints - some areas send letters, others provide an acknowledgement, others not reflecting the diversity of the services provided.
- The variety of channels which receive complaints results in a differing service level, lack of visibility and in some cases reliance on diligence of individuals to respond.
- There is an inconsistency in the way records are kept, with some services using excel spreadsheets and others using databases.
- Due to the diversity of recording systems, there is a lack of statistical information on the number of complaints and the reporting to management and councillors
- Whilst individual services may improve as a result of feedback, the Council cannot corporately evidence lessons learnt, review of outcomes or changes implemented
- There is a level of confusion over logging of complaints at each stage
- The Joint Chief Executive are often approached by complainants requesting that they deal with complaints often without prior investigation
- Whilst the definition of complaint is clear on the policy, there is a lack of clarity on how this is implemented in practice.
- MP's letters received direct to the Joint Chief Executives are in effect, complaints. However, they are not treated as such under the policy and are as a result, hidden from the broader complaint workload.
- Complaints processes on website is difficult to find and is confused with the feedback form and compliments.

It is recommended that when the policy is updated that the feedback from the change champions is taken into consideration in the re-draft of the policy.

<Recommendation One>

7.1.3 There is a Feedback page on the Hart District Council website which provides links to the complaints policy and ombudsman procedures. [Feedback Page](#)

7.1.4 A survey was undertaken by members of Change Champions Group to ascertain if they knew where to find the policy and had they seen it. 11 Officers responded – 9 had seen it and were able to locate it, 2 were not aware and were unable to locate.

7.1.5 Audit testing confirmed that the policy was difficult to locate on SharePoint and there were several versions identified when using the search function.

<Recommendation two>

7.1.6 The survey amongst officers highlighted that some officers are comfortable with offering the complaints policy to members of the public others less so. It is important that all officers are confident in the complaints process and not be afraid of inviting a complaint if appropriate. It is recommended once the complaints process and policy has been reviewed that officer training takes place on complaint handling. **<Recommendation four>**

7.1.7 There is a complaints policy which details the three stages of the complaints process. Best practice would be to provide a clear flow chart or working instructions in place for officers to follow through the various stages of the complaints process. **<Recommendation one>**

7.1.8 Recent training has not taken place for staff on the complaints process. **<Recommendation four>**

7.1.9 Where services are delivered by outsourced organisations there is a lack of clarity how these are recorded and reported to Hart District Council and at what stage they need to be handed over to HDC officers. **<Recommendation ten >**

7.2 Control Objective Two:

To review the means by which complaints are received and recorded.

7.2.1 Complaints and comments are received in a variety of methods. These include: email to joint inboxes, emails to officer email, e-forms from the website, social media, Councillors, letters and in person. Complaint records held do not identify method of receipt.

7.2.2 Each service has a method of recording complaints that come in – these are excel spreadsheets and are not consistent in design. **<Recommendation three>**

7.2.3 Monitoring of complaints relies on a manual review to check when responses are required. Calendar reminders are not used to remind officers of when deadlines for response will be breached. **<Recommendation three>**

7.2.4 Having spoken with a number of officers there are differing views on how complaints are categorised which means that not all potential complaints are always captured, some of which are considered to be feedback.

<Recommendation one>

7.2.5 One area of ambiguity is when a statutory decision is made, and a member of the public is not happy with the decision, and it is often not dealt with as a complaint. There may be a need to address the issue in order to clarify the understanding of the process. Consideration should be given to the recording this type of correspondence. **<Recommendation one>**

7.2.6 Social media is a channel for many complaints and comments. The recent update to the Customer Service standards considers social media. The complaints policy should also be updated to reflect how complaints received by this method are recorded and dealt with. **<Recommendation one>**

7.2.7 Some services are outsourced or shared with other Councils. Complaints are generally sent to Hart District Council rather than the outsourced provider but this is not consistent. Where complaints are sent directly to the outsourced service area there is no standard way of recording of these complaints or keeping track to the replies sent.

<Recommendation ten >

7.3 Control Objective Three:

To ensure that the 'step system' for complaints is being followed, documented and the timescales adhered to according to the policy

7.3.1 There are three stages of the complaints process these are:

Step 1 – This is the initial stage where concerns should be raised with the service to deal the matter directly – The council is committed to try to resolve the complaint at this stage.

Step 2 – If the customer is still unhappy with the complaint the matter should be raised in writing and will be dealt with by a senior member of staff – response should be within 10 days

Step 3 - If the customer disagrees with the Step 2 decision, then the complaint can be escalated to the Joint Chief Executives. Responses should be sent within 20 working days

7.3.3 Officers advised that there were complaints that had been escalated by Councillors and MP's with the Joint Chief Executive that had not been dealt with when they were initially received in line with the complaints process or recorded as such.

7.3.4 Testing was completed to verify that the response times prescribed in the complaint's procedure was being adhered to:

A sample of 25 complaint records from April and May 2021

Number of Complaint records reviewed	No of complaints acknowledged (as per records)	No of replies (as per records)	Notes
25	13	7/ 25 complaints had a response date annotated on the complaint records	18 records unable to verify if a response had been sent as records did not indicate a response had been sent

The average time taken for the 7 responses recorded as having a response was 4 days

A further sample was taken in September 2021 – A sample of 22 complaints received across services (including outsourced services) between June and August 2021 was reviewed

Number of Complaint records reviewed	No of complaints acknowledged (as per records)	No of replies (as per records)	Notes
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22	13	15 had a response recorded on the complaint records 7 did not have a response recorded	Further detail was requested from services to verify if a response had been sent and had not been recorded 5/7 had had a response sent. It should be noted that the 2 outstanding had been actioned but there was no evidence of a response to customer
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The average time to respond was 10 days - However there was evidence of 1 complaint taking 39 days to reply and in the sample 3 responses were replied to within 1 day.

7.3.5 The complaints records were incomplete and, in some cases, indicated that no response had been sent. **<recommendation three>**

7.3.6 Testing indicated that there were records of complaints dating back to 2013 – There is no specific data retention shown for complaints – Only Ombudsman case retention is detailed. This should be reviewed, and the data retention schedule updated
[Data Retention Schedule](#) **<recommendation nine>**

7.3.7 There are a couple of officers who take responsibility for recording and monitoring complaints in specific areas. A dedicated officer is not assigned in all service areas.

7.4 Control Objective Four:

To ensure that vexatious, persistent and unreasonable complaints are dealt with as per policy.

- 7.4.1 The Policy and Guidance for Dealing with Unreasonable Customer Behaviour has recently been reviewed and updated to include guidance from the Local Government Ombudsman. It makes specific reference to the use of racist, sexist, homophobic or other discriminatory language as being unacceptable. It also widens the application of this policy to our social media channels.
- 7.4.2 The policy was approved by Cabinet in July 2021 and officers made aware of the policy via 'Hart Beat' newsletter.
- 7.4.3 As noted earlier there is currently no corporate area to record complaints which will aid in the identification of persistent, unreasonable and vexatious complaints.

<Recommendation Three>

7.5 Control Objective Five:

To ensure that Ombudsman complaints are dealt with as per policy.

- 7.5.1 Ombudsman Complaints are received from the Ombudsman via a dedicated inbox managed by the Personal Assistant to the Joint Chief Executive. All cases are recorded on a specific spreadsheet held in the audit confidential area of SharePoint. Cases are then distributed by corporate support and deadlines given to respond. Responses are monitored by corporate support and audit.
- 7.5.2 The annual letter provided by the ombudsman gives feedback to individual local authorities on cases dealt with during the year and provides trends and common weaknesses in complaints processes across all Local Authorities. The latest report was received in July and was taken to the Overview & Scrutiny Committee for review in August 2021.
- 7.5.3 The Annual review letter for 2020/21 provided information about two detailed investigations. One complaint was upheld and in this case it was deemed that the authority had successfully implemented recommendations.

- 7.5.4 Review of recorded information found that there was no central complaints record in place which means that should an ombudsman complaint come in there is no central place to find the information of how the complaint has been dealt with in earlier stages or whether the complaint was premature as it had not been through the earlier staged complaint process.
<Recommendation Three>
- 7.5.5 In addition to the findings raised in 7.5.4 above it should be noted that the Ombudsman requires a full evidence trail of the complaint being dealt with. The current complaint recording method does not log complaints with copies of responses. This could make the process more efficient if this was implemented. **<Recommendation Three>**
- 7.5.6 The Annual review letter 2020/21 makes a general reference to all local authorities and the quality of complaint handling. This letter was sent to all Heads of Service by the Monitoring Officer for review and learning.
- 7.5.7 Discussion with management and review of policies and process notes revealed that there are no specific procedures relating to the handling of Ombudsman Complaints. However, it is noted that the Monitoring Officer oversees all of these complaints and there is a consistent approach.
- 7.5.8 As at August 2021 there is currently one Ombudsman case being investigated, this is at the initial evidence gathering stage.

**7.6 Control Objective Six:
To review complaint statistics and ensure that these are reviewed, reported and lessons learned are implemented.**

- 7.6.1 It was noted that some of the sheets that record complaints had a section available to review the lessons learnt – in the sample of 25 reviewed none of these columns were populated.

<Recommendation seven>

- 7.6.2 From discussions with officers and evidence from the change champion survey it was found that complaint findings are not shared and discussed within teams **<Recommendation seven>**

- 7.6.3 Where services are outsourced there is no consistent approach to

ensuring complaints are handled as per the Hart complaint policy

<Recommendation ten>

7.6.4 There was no evidence of complaint statistics being collated, monitored and reported to management or members

<Recommendation ten>



INTERNAL AUDIT REPORT	
Area of Review	Disabled Facilities Grants
Date	October 2021

1. **BACKGROUND**

As part of the 2021-22 Internal Audit Plan a review of the key controls in place for Disabled Facilities Grants was undertaken.

2. **SCOPE OF THE REVIEW**

The audit approach has been to review processes surrounding the below stated control objectives, perform walkthrough testing, where appropriate, 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	Disabled Facilities Grant applications are promptly and properly administered and appropriately approved.
2	Invoices are received and payments appropriately authorised.
3	Disabled Facilities Grant applications on Uniform can only be accessed and amended by appropriate officers.
4	There is monitoring of budgets and performance.

3. **AUDIT APPROACH**

Our audit approach to this review has been to:

- Obtain and understand 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 the effectiveness of the controls in place to address these risks.
- Test the effectiveness of the key controls.
- This review has been undertaken in compliance with the Public Sector Internal Audit Standards.

4. 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

SUMMARY OF FINDINGS

Control Objective One: Disabled Facilities Grant applications are promptly and properly administered and appropriately approved.

- There are no formal internal written procedural documents in place for staff to refer to when carrying out disabled facilities grant applications.
- Testing indicates that applications are generally being administered and approved in accordance with established guidance. This includes appropriate segregation of duties between the caseworker and the officer who checks it, obtaining relevant schedule of works and ensuring that the application is approved within the established six month timeframe.
- Testing indicates that controls are in place that ensure applicants are not paid more than the £30,000 maximum limit.
- There is an established suppliers list in place that details the suppliers the council uses for disabled facilities grant work. However, it was noted that several of the contractors in Internal Audit's sample were not on the list.
- Internal Audit's sample testing shows that whilst there are some controls in place that ensure quotes are obtained before work is undertaken, overall the council's contract standing orders are not being fully complied with regarding spends over £10,000. This includes not having established formal contracts in place with established suppliers.

Control Objective Two: Invoices are received, and payments appropriately authorised.

- Internal Audit's sample testing indicates that invoices are received and paid on time.
- Audit testing found that purchase orders were not being raised.

Control Objective Three: Disabled Facilities Grant applications on Uniform can only be accessed and amended by appropriate officers.

- Internal Audit did not receive confirmation in time for the audit report on who has access to the disabled facilities grants section on Uniform. This will be picked up as part of the IT controls audit
- Regular daily backups are in place concerning the relevant IT system Uniform

Control Objective Four: There is monitoring of budgets and performance.

- Internal Audit are able to confirm that there is regular monitoring of disabled facilities grant expenditure.

Summary of risks

	Risk/Issue	Risk Assessment	Management Response / Proposed Mitigation	Responsible Officer	Target Date
1	Internal policies and procedures are not in place that governs the disabled facilities grants process.	Medium	There is a current private sector renewal policy that governs the work of the service. There are some limited procedures in place beneath that have been under review. A comprehensive set of procedures will be developed by the team to give governance to the grants process	Private Sector Housing Manager	31 st March 2022
2	The disabled facilities grant process is not complying with the council's contract standing orders.	High	A meeting has been booked with the Head of Finance to scope out how best to deal with this issue. We will work to have full compliance by end of March 2022	Private Sector Housing Manager	31 st March 2022

3	The council's contract register does not include the suppliers that the council uses for disabled facility grants work.	Medium	Because of the links to action 2 above, this will be discussed with Head of Finance, and we will ensure all contracts are let in compliance with standing orders and all contract awards added to the contracts register	Private Sector Housing Manager	31 st March 2022
4	A small number of relevant documents are not stored on SharePoint.	Low	Staff should be reminded to always store relevant documentation on SharePoint.	Private Sector Housing Manager	30 th November 2021
5	In Internal Audit's sample, a minority of the contractors used by the council were not on the approved suppliers list.	Medium	We will make sure that all suppliers are on the approved suppliers list, by end of March 2022	Private Sector Housing Manager	31 st March 2022
6	Purchase orders are not being raised for disabled facility grants work.	Medium	It has been agreed that for new jobs, all new grant applications will involve the use of purchase orders. Some time is needed to communicate this change to the contractor	Private Sector Housing Manager	30 th November 2021
7	Uniform tabs are not being fully utilised in a minority of cases, particularly the tabs relating to work commenced, work completed and inspection dates.	Low	Staff should be reminded to always fully use relevant tabs on Uniform	Private Sector Housing Manager	30 th November 2021



SUMMARY - FRAUD RISK ASSESSMENT 2021/22

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.

As part of the council's commitment against fraud a review is undertaken annually to assess its performance against the Fighting Fraud and Corruption Locally (FFCL) best practice checklist. The checklist forms part of the Fighting Fraud and Corruption Locally Strategy for the 2020s which were developed through a partnership of Local Authorities and for Local Authorities.

Conclusions

Hart District Council recognises that they are not immune to the possibility of fraud and corruption occurring within or against the authority. As such there are various controls and mechanisms in place to limit the risks of this occurring.

These arrangements also help the council to meet the legislative requirements to have effective arrangements for tackling fraud as stated under Section 151 of the Local Government Act 1972.

The below gives a summary of the **main** findings against the FFCL checklist:

- ✓ The council annually assesses itself against the FFCL checklist

- ✓ There are dedicated fraud resources (via internal and external arrangements) which are independent of process and have the necessary access to Hart DC ICT systems, personnel and resources as and where required.
- ✓ The Audit Committee receives regular fraud updates as part of committee meetings throughout the year and which includes reports on activity, success and future plans.
- ✓ The portfolio holder, with fraud within their remit, is kept informed of fraud risks and activities.
- ✓ There is an annual training programme which includes fraud awareness for all employees and members. The fraud awareness training is carried out in conjunction with cyber security training (which closely overlaps with the risks of fraud). Training includes staff and members being made aware of the responsibilities around fraud, bribery and money laundering and the need to make appropriate disclosures of gifts, hospitality and business.
- ✓ Focus on Fraud awareness newsletters that are produced include a message from the Chief Executive's helping to provide a 'tone from the top' message around fraud and related topics.
- ✓ Fraud reporting mechanisms are in place and communicated to staff and members, with reporting options (reporting hotline and email) available on the council's public facing website.
- ✓ Arrangements are in place designed to promote and ensure probity and propriety in the conduct of Hart DC's business. This includes arrangements relating to standards of conducts and declarations of gifts and hospitality and interests by Officers and Members.
- ✓ There has been external publication of successes related to counter fraud work (National Fraud Initiative Single Person Discount reviews)
- ✓ Where there are no proven or actual case examples relating to Hart DC, examples from other organisations have been used in fraud awareness materials (awareness sessions, Focus on Fraud newsletters).
- ✓ The council participates in the mandatory National Fraud Initiative and has previously been involved in cross organizational proactive fraud data matching as part of the Hampshire Fraud Group (a group of local authority fraud specialist across Hampshire).
- ✓ The council has connections which can enable the identification of specialist staff for surveillance, computer forensics, asset recovery and financial investigations.
- ✓ Whilst the in-house Internal audit resource is not formally fraud trained there is a good level of awareness and understanding.
- ✓ Previously raised risk around recruitment checks not meeting employment law - a checklist was to be implemented and would be picked up as part of Audit assignment. Update -these recommendations have now been actioned
- ✓ Referrals for Revenues and Benefits are risk rated and processed by Capita Revenues and Benefits fraud officers and there is resource would be procured to complete any other investigations if required.

- ✓ The sanctions policy is in place within the Capita contract and details are in the debt recovery policy. The debt recovery policy should be reviewed to include any references to fraud.
- ✓ Potential weaknesses identified in the internal control environment via Audit assignments facilitate improvements.

- ✗ The fraud resources are not routinely consulted to fraud proof new policies, strategies and initiatives.
- ✗ Whilst fraud is listed as a generic risk in the Corporate Risk Register, there is a need for a Fraud Risk Register to consider the risks in each service area in order to fully understand the fraud risk environment. Assessment should include horizon scanning. This will assist with resource management and aid targeted fraud work, alongside the annual assessment against the FFCL checklist (a fraud action plan should be linked to the fraud risks identified).
- ✗ An Anti-Fraud and Corruption Policy (including reference to bribery), Counter Fraud and Corruption Strategy, Anti- Money Laundering Policy and Whistle Blowing Policy exist but need to be reviewed/updated and made more accessible to staff, the public and third parties. It may be preferable to have a separate Anti Bribery Policy.
- ✗ A formal process/system is required to track and enable risk assessment on any reports/allegations relating to fraud, bribery and money laundering.
- ✗ Whilst a money laundering reporting form exists (as required), there is no similar fraud or bribery referral form. Whilst not a requirement a form with prompts may assist the collection of relevant information to enable a full investigation to be carried out where appropriate. An online anonymous form may aid those wanting to report anonymously and not reveal their telephone number or email.
- ✗ The current Fraud Response Plan needs to be reviewed as it is slanted towards staff investigations and does not make clear whether the process considers parallel sanctions such as criminal action as well as disciplinary action. The advice given may also go against best practice particularly in relation to interviews.

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

Page 266

	Risk/Issue	Responsible Officer	Action Taken	Target Date
1	Need for a Fraud Risk Register to consider all fraud risks across each service area/the organisation(to include horizon scanning) Service area leads are reminded of the need to identify fraud risks (possible involvement in Fraud Risk Register).	Head of Corporate Services / Internal Audit Manager	The Fraud awareness training has made officers aware of the need for a Fraud Risk Register – Meetings will be arranged with Managers to identify and document risks	March 2022

2	Need for a Fraud Action Plan (to include proactive activities that cover all of Hart DCs business including that undertaken by contractors, third parties and voluntary sector) Note: any fraud action plan should ideally be kept out of the public domain.	Head of Corporate Services / Internal Audit Manager	A plan will be put together	March 2022
3	Anti-Fraud and Corruption Policy (includes references to bribery and gifts and hospitality) should be reviewed/updated.	Head of Corporate Services / Internal Audit Manager	To be reviewed and updated	March 2022
4	Anti-Money Laundering Policy is reviewed/updated.	Head of Corporate Services / Internal Audit Manager	To be reviewed and updated	March 2022
5	Counter Fraud and Corruption Strategy should be reviewed/updated	Head of Corporate Services / Internal Audit Manager	To be reviewed and updated	March 2022
6	Summary issue – the location of all policies/strategies/procedures need to be made consistent. Various versions are in different locations and it's hard to establish which is current – impossible for staff to know existence of policies.	Head of Corporate Services	This issue is being reviewed by the customer champions as part of a review of policies and procedures	Ongoing
7	Continued reminders are given to officers to obtain advice from fraud resources/Internal Audit to fraud proof new policies, strategies and initiatives.	Internal Audit Manager	This will be covered in the meetings with managers when completing the Fraud Risk Registers	March 2022

8	The Whistleblowing Policy needs to be reviewed and updated to include changes such as the name and contact details for what is now 'Protect'	Head of Corporate Services / Internal Audit Manager	To be reviewed and updated	March 2022
9	Contractors and third parties working for or on behalf of the council are made aware of the whistleblowing policy. Include 'sign up' to policy as part of contracts.		We cannot mandate all contractors sign up to policy due to breaches in IR35 which would cause undue risk to the Council. We can however make contractors aware of this policy where possible.	March 2022
10	A formal process/system to log and track allegations from receipt to case closure/outcome	Head of Corporate Services / Internal Audit Manager	This is now in place and allegations are now recorded and tracked. Many of the referrals are with the DWP therefore updates are not always timely – although they are monitored by the Fraud officer in Capita	Complete
11	As part of Payroll Audit, confirm: <ul style="list-style-type: none"> ○ a checklist was produced and is consistently utilized to ensure the previously identified risk “That recruitment checks in place do not meet employment law” is resolved. 	Head of Corporate Services / Internal Audit Manager	These items have now been addressed and an action plan is in place	Complete

	<ul style="list-style-type: none"> The DBS framework has been reviewed and signatory appointed in relation to previously identified risks of “There is currently no signatory in place for DBS”, “The rechecking of officers needs to be reviewed” and “The recruitment procedures need to be followed/JD’s reviewed to ensure all roles requiring DBS are picked up”. 			
12	Fraud Response Plan to be reviewed	Head of Corporate Services / Internal Audit Manager	This plan will be reviewed in consultation with the Fraud Investigator (Basingstoke)	March 2022
13	Debt Recovery Policy should include references to fraud.	Head of Corporate Services / Internal Audit Manager	The policy will be reviewed and if deemed appropriate fraud references will be incorporated	March 2022
14	Ensuring Officers across the council are aware of the Regulation of Investigatory Powers Act – particularly those likely to use social media to ‘check up on’ members of the public (social media use may be considered directed surveillance.)	Head of Corporate Services / Internal Audit Manager	Training has taken place in this area in the past. This item will be followed up with HR and if there is a need for new starters or a refresher to be undertaken a request will be made for it to be included on the training plan	March 2022

AUDIT COMMITTEE

DATE OF MEETING: 7 DECEMBER 2021

TITLE OF REPORT: CONSIDERATION OF ADDITIONAL AUDIT WORK - SHAPLEY HEATH GARDEN COMMUNITY PROJECT

Report of: Head of Corporate Services

Cabinet Member: Councillor James Radley, Finance and Corporate Services

1 PURPOSE OF REPORT

The purpose of this report is to recommend an extension of the current 2021/22 Internal Audit Plan to accommodate an audit of income, expenditure, and governance arrangements in place over the Shapley Heath Garden Community Project.

2 OFFICER RECOMMENDATION

That Members of the Committee approve an additional independent internal audit of up to 15 days procured by the Audit Manager based on the scope suggested in Section 4 of this report.

3 BACKGROUND

- 3.1 As detailed in the Audit Results report an objection has been received to the 2021/22 accounts by a member of the public. This objection raises concerns about budgeting and budget monitoring of the project. A member of the public asked the Chair of Audit Committee to consider an Internal Audit of the project and the Chair committed to bring this consideration to the next meeting of the Audit Committee.
- 3.2 On the 4th of November 2021, Cabinet approved the recommendation that the Shapley Heath Garden Community Project was concluded with immediate effect but that existing baseline studies and surveys proceed to completion and be published early in the new year.
- 3.3 Further questions were raised by a member of the public at the Council meeting on the 25th of November 2021, demonstrating that there remains a level of public concern around the project.
- 3.4 The current Internal Audit plan does not include any specific reviews of this project or provide any specific assurance around this project and therefore a review of this area would need to be in addition to the 2021-22 Internal Audit Plan.

4 POTENTIAL SCOPE OF THE REVIEW

- 4.1 The aim of internal audit's work is to provide independent assurance to management in relation to the business activities, systems, or processes under review that:
- The framework of internal control, risk management and governance are appropriate and operating effectively; and
 - The risk to the achievement of the Council's objectives is identified, assessed, and managed to a defined acceptable level.
- 4.2 It is therefore recommended that this review is carried out by an external organisation to Hart District Council. The project is complex and therefore assurance will need to be taken that the work is carried out by an auditor with the appropriate skills, knowledge, and experience.
- 4.3 It is recommended that scope should address the following risks (understanding that the length of the review is not unlimited).
- Assurance over the project management framework used.
 - Assurance over budgetary control and financial risks.
 - Assurance over the monitoring and reporting of financial information.
 - Assurance over compliance with contract procedure rules and contract management arrangements.
 - Assurance over the risk management framework including governance and transparency.
 - Assurance over information governance arrangements to include FOI, Transparency and GDPR

5 FINANCIAL IMPLICATIONS OF THE REVIEW

The cost of this additional review is anticipated to be approximately £12,000 and will be funded from Additional Burdens funding arising from the processing, reconciliation, and audit of business rate grants due to the impact that Business Grants has had on the 2021/22 capacity of the Internal Audit function.

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

AUDIT COMMITTEE

DATE OF MEETING: 7 DECEMBER 2021

TITLE OF REPORT: UPDATE ON IMPLEMENTATION OF THE CIPFA FINANCIAL MANAGEMENT CODE

Report of: Head of Corporate Services

Cabinet Member: Councillor James Radley, Finance and Corporate Services

1 PURPOSE OF REPORT

The purpose of this report is to provide an update to Members of the Audit Committee of progress in implementing the Financial Management Code.

2 OFFICER RECOMMENDATION

The Committee notes this report.

3 BACKGROUND

- 3.1 In December 2019, CIPFA published its Financial Management code (FM Code) to provide guidance for good and sustainable financial management in local authorities. It has been produced to assist local authorities in demonstrating their financial sustainability through a set of standards of financial management. This is the first year of implementation of the code.
- 3.2 Hart District Council assessed itself against the code on the 31st of March 2021. The assessment resulted in ten actions for the Council to consider. These actions are detailed in the table below. Progress has been provided against each item with a target deadline and these have been RAG rated according to progress made in the year to date.
- 3.3 Further progress will be reported at each Audit Committee meeting. Internal Audit are currently carrying out a review of our compliance with the Code and this will be reported to the next Audit Committee meeting. A second full assessment against the code will take place at the 31st of March 2022.

4 UPDATE ON IMPLEMENTATION OF RECOMMENDATIONS

- 4.1 The ten recommendations are shown in the table below with progress made in the year to date; further requirements remaining, a target completion date and a RAG rating to reflect risks of delivery.

Action	Objective	Action	Progress to Date	Completion Date
1.	The Leadership team can demonstrate that the services provided by the authority provide value for money.	Toolkit training on procurement and value for money to be provided to all managers.	1 of 4 Toolkit trainings delivered. Procurement covered and will be done in more detail at the 3 rd training session.	31.03.22
2.	The authority complies with the CIPFA Statement on the role of Chief Finance Officer in Local Government	To continue to support continuing professional development of Finance for non-finance officers especially for managers.	Detailed Finance and Budget monitoring training provided to budget holders in May 2021. Ongoing delivery	31.03.22
3.	The financial management style of the authority supports financial sustainability.	To embed the link between accountability, performance, and transformation through the newly re-introduced service boards.	Service Boards have started but the link between accountability and performance needs to be established further	31.03.22
4.	The authority has carried out a credible and transparent financial resilience assessment	Further scenario and stress testing to be included as part of the development of the MTFS	This has been carried out ready for publication in the January 22 budget papers.	31.01.22
5.	The authority has a rolling multi-year medium term-financial plan consistent with sustainable service plans.	To review the lessons learned from the previous service and financial planning process.	New process for budget setting in place with much more consultation between finance and service areas.	31.12.21
6.	The authority understands its prospects for financial sustainability in the longer term and has reported this clearly to members.	To further develop a 10-year MTFS.	MTFS developed ready for publication in January 22 budget papers.	31.01.22
7.	The authority has engaged where appropriate with key stakeholders in developing its long-term financial strategy, medium term financial plan and annual budget	To further develop the approach to budget consultation and Strategic Plan consultations.	Budget consultation already planned with parishes. Meetings to be arranged for January with further stakeholders.	31.01.22
8.	The authority uses an appropriately documented option appraisal methodology to demonstrate the value for money of its decisions.	Extend business case requirements for all detailed savings plans and MTFS related decisions.	We are still working on this. There is a new template to Cabinet and business cases have been trialled for 2022/23 budget decisions.	31.03.22
9.	The Leadership team acts using reports enabling it to identify	To consider further integration of	To be discussed for 2022/23	31.03.22

	and correct emerging risks to its budget strategy and financial sustainability	service and financial reporting.		
10.	The leadership team monitors the element of its balance sheet that pose a significant risk to its financial sustainability.	Further performance reporting on Council Tax and Business rates, sundry debt, and Commercial Investments as part of the new service board reporting regime.	In progress, further KPI information in the service plan pack. Commercial and sundry debt to be included for Q3.	31.03.22

5 FINANCIAL IMPLICATIONS OF THE REVIEW

The cost of purchase of the code from CIPFA was £550 and was absorbed within 20/21 budgets.

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