

NOTICE OF MEETING

Meeting: AUDIT COMMITTEE

Date and Time: FRIDAY, 23 OCTOBER 2020, AT 9.30 AM*

Place: SKYPE MEETING - ONLINE

Enquiries to: E-mail: andy.rogers@nfdc.gov.uk
Tel: 023 8028 5070

PUBLIC PARTICIPATION:

*Members of the public may speak in accordance with the Council's public participation scheme:

- (a) immediately before the meeting starts, on items within the Cabinet's terms of reference which are not on the public agenda; and/or
- (b) on individual items on the public agenda, when the Chairman calls that item. Speeches may not exceed three minutes.

Anyone wishing to speak should contact the name and number shown above no later than 12.00 noon on Wednesday, 21 October 2020. This will allow the Council to provide public speakers with the necessary joining instructions for the Skype Meeting.

Bob Jackson
Chief Executive

Appletree Court, Lyndhurst, Hampshire. SO43 7PA
www.newforest.gov.uk

This Agenda is also available on audio tape, in Braille, large print and digital format

AGENDA

Apologies

1. MINUTES

To confirm the minutes of the meeting held on 10 July 2020 as a correct record.

2. DECLARATIONS OF INTEREST

To note any declarations of interest made by members in connection with an agenda item. The nature of the interest must also be specified.

Members are asked to discuss any possible interests with Democratic Services prior to the meeting.

3. PUBLIC PARTICIPATION

To note any issues raised during the public participation period.

4. AUDIT RESULTS REPORT 2019/20 (Pages 5 - 44)

To receive the Audit Results Report 2019/20.

5. FINAL ANNUAL GOVERNANCE STATEMENT 2019/20 (Pages 45 - 52)

To consider the Final Annual Governance Statement for 2019/20.

6. FINAL ANNUAL FINANCIAL REPORT 2019/20 (Pages 53 - 158)

To consider the Final Annual Financial Report for 2019/20.

7. INTERNAL AUDIT PROGRESS REPORT 2020/21 (Pages 159 - 174)

To receive the Internal Audit Progress Report for 2020/21.

8. INTERNAL AUDIT - EXTERNAL QUALITY ASSESSMENT 2020 (Pages 175 - 192)

To receive the Internal Audit External Quality Assessment for 2020.

9. TREASURY MANAGEMENT MONITORING REPORT 2020/21 (Pages 193 - 206)

To consider the Treasury Management Monitoring Report for 2020/21.

10. INSURANCE ARRANGEMENTS 2020/23 (HAMPSHIRE DISTRICT AND BOROUGH COUNCILS) (Pages 207 - 210)

To receive an update on the outcome of the procurement process for the provision of insurance services for New Forest District Council.

11. RISK MANAGEMENT

The Strategic Risk Register summarises the most significant risks to the delivery of the Corporate Plan and the proposed actions to mitigate these risks. It is proposed that the Audit Committee receive Risk Management training ahead of the finalisation of new Strategic Risk Register.

Risk management training is currently being developed by our insurers and will be delivered in a webinar setting e.g. Skype or Microsoft Teams. Once this has been finalised, Audit Committee members will receive invitations in due course.

12. AUDIT COMMITTEE WORK PLAN (Pages 211 - 212)

To consider the Audit Committee's Work Plan.

13. DATES OF MEETINGS 2021/2022

To agree the following dates of meetings for 2021/2022 (all Fridays, at 9.30 a.m.)

28 May 2021
30 July 2021
29 October 2021
28 January 2022
25 March 2022

14. ANY OTHER ITEMS WHICH THE CHAIRMAN DECIDES ARE URGENT

NEW FOREST DISTRICT COUNCIL – VIRTUAL MEETINGS

Background

This meeting is being held virtually with all participants accessing via Skype for Business.

A live stream will be available on YouTube to allow the press and public to view meetings in real time and can also be found at the relevant meeting page on the Council's website.

Principles for all meetings

The Chairman will read out Ground Rules at the start of the meeting for the benefit of all participants. All normal procedures for meetings apply as far as practicable, as the new Government Regulations do not amend any of the Council's existing Standing Orders.

The Ground Rules for all virtual meetings will include, but are not limited to, the following:-

- All participants are reminded that virtual public meetings are being broadcast live on YouTube and will be available for repeated viewing. Please be mindful of your camera and microphone setup and the images and sounds that will be broadcast on public record.
- All participants are asked to mute their microphones when not speaking to reduce feedback and background noise. Please only unmute your microphone and speak when invited to do so by the Chairman.
- Councillors in attendance that have not indicated their wish to speak in advance of the meeting can make a request to speak during the meeting by typing "RTS" (Request to Speak) in the Skype chat facility. Requests will be managed by the Chairman with support from Democratic Services. The Skype chat facility should not be used for any other purpose.
- All participants should note that the chat facility can be viewed by all those in attendance.
- All participants are asked to refer to the report number and page number within the agenda and reports pack so that there is a clear understanding of what is being discussed at all times.

Voting

When voting is required on a particular item, each councillor on the committee will be called to vote in turn by name, expressing their vote verbally. The outcome will be announced to the meeting. A recorded vote will not be reflected in the minutes of the meeting unless this is requested in accordance with the Council's Standing Orders.

By casting their vote, councillors do so in the acknowledgement that they were present for the duration of the item in question.

Technology

If individuals experience technical issues, the meeting will continue providing that it is quorate and it is still practical to do so. The Chairman will adjourn the meeting if technical issues cause the meeting to be inquorate, the live stream technology fails, or continuing is not practical.

Public Participation

Contact details to register to speak in accordance with the Council's Public Participation Procedures are on the front page of this agenda.

In order to speak at a virtual meeting, you must have the facility to join a Skype for Business Meeting. Joining instructions will be sent to registered speakers in advance of the meeting.

The Council will accept a written copy of a statement from registered speakers that do not wish to join a Skype Meeting, or are unable to. The statement will be read out at the meeting and should not exceed three minutes. Please use the contact details on the agenda front sheet for further information.

To:

Councillors:

Alan O'Sullivan (Chairman)
Emma Lane (Vice-Chairman)
Alan Alvey
Hilary Brand

Councillors:

Mahmoud Kangarani
Martyn Levitt
Ann Sevier
John Ward

New Forest District Council Audit results report

Year ended 31 March 2020

October 2020

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The EY logo consists of the letters 'EY' in a bold, white, sans-serif font. Above the 'Y' is a yellow triangle pointing to the right. The logo is positioned in the bottom right corner of the page, above the tagline.

Building a better
working world

Agenda Item 4



Private and Confidential

13 October 2020

Dear Audit Committee Members

We are pleased to attach our audit results report for the forthcoming meeting of the Audit Committee. This report summarises our preliminary audit conclusion in relation to the audit of New Forest District Council for 2019/20.

We have substantially completed our audit of New Forest District Council for the year ended 31 March 2020.

Subject to concluding the outstanding matters listed in our report, we confirm that we expect to issue an unqualified audit opinion on the financial statements in the form that appears in Section 3, before the statutory deadline of 30 November 2020. We also have no matters to report on your arrangements to secure economy, efficiency and effectiveness in your use of resources.

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

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

We welcome the opportunity to discuss the contents of this report with you at the Audit Committee meeting on 23 October 2020.

Yours faithfully

Kevin Suter

Associate Partner

For and on behalf of Ernst & Young LLP

Encl

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01 Executive Summary



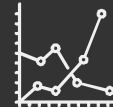
02 Areas of Audit Focus



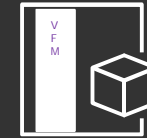
03 Audit Report



04 Audit Differences



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

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

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

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

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



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01 Executive Summary

Executive Summary

Scope update

In our audit planning report presented at the 24 January 2020 Audit Committee meeting, we provided you with an overview of our audit scope and approach for the audit of the financial statements. We carried out our audit in accordance with this plan, with the following exceptions:

Changes to reporting timescales

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

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

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

Changes in materiality

In our Audit Committee Planning Report, we communicated that our audit procedures would be performed using a materiality of £2.38m, with performance materiality, at 75% of overall materiality, of £1.79m, and a threshold for reporting misstatements of £0.12m.

We have considered whether any change to our materiality is required in light of Covid-19. Following this consideration we remain satisfied that the basis for planning materiality, performance materiality and our audit threshold for reporting differences reported to you in our Audit Planning Report remain appropriate.

The basis of our assessment has remained consistent with prior years at 2% of gross operating expenditure.

We updated our planning materiality figures using the draft financial statements. Based on our materiality measure of gross expenditure on provision of services, we have updated our overall materiality assessment to £2.45m. This results in updated performance materiality, at 75% of overall materiality, of £1.84m, and an updated threshold for reporting misstatements of £0.12m.



Executive Summary

Scope update

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
- Agree IPE to scanned documents or other system screenshots.

Additional EY consultation requirements concerning the impact on auditor reports because of Covid-19.

The changes to audit risks, audit approach and auditor reporting requirements changed the level of work we needed to perform. We have set out the impact on our audit fee in Section 8.

Status of the audit

We have substantially completed our audit of New Forest District Council's financial statements for the year ended 31/3/2020 and have performed the procedures outlined in our Audit planning report. Subject to satisfactory completion of the following outstanding items we expect to issue an unqualified opinion on the Council's financial statements in the form which appears at Section 3. However until work is complete, further amendments may arise:

- Receipt and review of EY Real Estates report which is testing the valuation methodology for a sample of NFDC Existing Use Value (EUUV) and Fair Value assets
- Completion of review of client assessment of Going Concern
- Completion of Unrecorded liabilities and Creditors Cut-off testing
- Responses to audit queries on Creditors Existence testing
- Completion of Collection Fund testing
- Completion of Expected Credit loss testing
- Completion of Developers Contributions testing
- Completion of HRA disclosures testing
- Completion of subsequent events review
- Receipt of the signed management representation letter

We expect to issue the audit certificate at the same time as the audit opinion. However, we note the instructions from the National Audit Office for the Whole of Government Accounts review are still to be issued and we cannot certify the completion of the audit until this work is completed.

Audit differences

There is one unadjusted audit difference arising from our audit to date

Details can adjusted audit differences be found in Section 4 Audit Differences.



Executive Summary

Areas of audit focus

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

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

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

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

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Control observations

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

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

There are no matters we wish to report.

Executive Summary

Value for money

We have considered your arrangements to take informed decisions; deploy resources in a sustainable manner; and work with partners and other third parties. Our risk assessment considered both the potential financial impact of any issues identified, and also the likelihood that the issue will be of interest to local taxpayers, the Government and other stakeholders. This has resulted in the identification of no significant risks at planning and this is consistent with our year end findings.

We have no matters to report about your arrangements to secure economy efficiency and effectiveness in your use of resources.

Other reporting issues

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

We are still to perform the procedures required by the National Audit Office (NAO) on the Whole of Government Accounts submission, as the instructions are yet to be issued. We expect that the District Council will remain below the de-minimis for full procedures, which in the prior year was set at £500m. Therefore, we anticipated having no issues to report.

We have no other matters to report.

Independence

Please refer to Section 8 for our update on Independence.



02 Areas of Audit Focus



Areas of Audit Focus

Significant risk

Risk of fraud in revenue recognition - inappropriate capitalisation of revenue expenditure

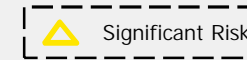
What is the risk?

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

From our risk assessment, we have assessed that the risk manifest itself through the potential to inappropriately capitalise revenue expenditure to improve the financial position of the general fund.

Capitalized revenue expenditure can be funded through borrowing with only minimal MRP charges recorded in the general fund, deferring the expenditure for 30+ years when the borrowing is repaid. Alternately, other sources such as capital receipts or grants could be inappropriately used to finance the expenditure.

Inappropriate classification of revenue expenditure as REFCUS (revenue expenditure funded by capital under statute) could also have the same impact, removing the spend incorrectly from the general fund through applying statutory overrides.



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What did we do?

Our approach focused on:

- ▶ We selected a sample of PPE additions to test and confirm the item was appropriate to capitalise through agreement to evidence such as invoices and capital expenditure authorisations.
- ▶ We selected a sample of REFCUS items to test to confirm the appropriateness of the classification of these items
- ▶ When performing journals testing, we analysed entries that would be classed as high risk transactions, such as items originally recorded as revenue expenditure and subsequently capitalised or reclassified as REFCUS.

What are our conclusions?

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

We tested a sample of PPE additions and confirmed they met the capitalisation requirements under IAS16

At year end the total value of REFCUS items were below our materiality threshold and therefore specific testing in this area was not required.

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

We did not identify any other transactions through our test of journals or our other audit procedures which appeared unusual or outside the Council's normal course of business.



Areas of Audit Focus

Significant risk

Misstatements due to fraud or error

What is the risk?

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

As identified in ISA (UK) 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.



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What judgements are we focused on?

Our assessment of risk led us to create a series of criteria for the testing of journals, focusing specifically on areas that could be open to management manipulation. We have also focused specifically on capitalisation of assets as a potential area of manipulation, which is recorded as a separately identified Significant risk - Inappropriate capitalisation of revenue expenditure

What did we do?

Our approach focused on:

- Testing the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements
- Assessing accounting estimates for evidence of management bias, and
- Evaluating the business rationale for significant unusual transactions.

Further to this, we have:

- Inquired of management about risks of fraud and the controls put in place to address those risks, as well as gaining an understanding the oversight given by those charged with governance of management's processes over fraud.
- We have considered the effectiveness of management's controls designed to address the risk of fraud.

What are our conclusions?

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

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

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

We have not identified any unusual or unsupported journals, or other adjustments made in preparing the financial statements.



Areas of Audit Focus

Significant risk

Valuation of Property, including Investment Property

What is the risk?

The valuation of property is complex and subject to several assumptions and judgements. A small movement in these assumptions can have a material impact on the financial statements. Following the Covid-19 pandemic and resulting lockdown in late March 2020, PPE valuers had less access to evidential data which would help to underpin their valuations. In light of this, RICs guidance recommended the use of a “material valuation uncertainty” clause in all 31 March 2020 asset valuations. This was applied in the Council’s accounts. While this clause does not mean a valuation cannot take place, there is an increased risk that the valuation may be materially misstated. We have therefore increased this to a significant risk, compared to our original risk assessment. We focus this enhanced risk on assets valued under Existing Use Value or Fair Value methodologies as these methods take into account comparative market information.



What did we do?

We have:

- Considered the work performed by the Council’s valuer, this included a review of 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 valuer in performing their valuation (e.g. floor plans to support valuations based on price per square metre);
- instructed our own Property valuation team (EY Real Estates) to review a sample of EUV and FV valuations performed by the Council’s Valuer;
- Consider the annual cycle of valuations to ensure that assets have been valued within a 5 year rolling programme as required by the Code for PPE;
- Reviewed assets not subject to valuation in 2019/20 to confirm that the remaining asset base is not materially misstated;
- Considered changes to useful economic lives as a result of the most recent valuation;
- Tested accounting entries have been correctly processed in the financial statements; and
- We reviewed the adequacy of the “material valuation uncertainty” disclosure in the Council’s accounts.

What are our conclusions?

Our work in this area is ongoing. We currently await the final report from our EY Real Estates team.

Our initial findings requested a change in asset valuation technique relating to cemeteries. The Council agreed to amend these assets to be based on a Historic Cost valuation rather than Depreciated Replacement Cost, as they are considered to be community assets. We also challenged the number of high value assets initially not being revalued in 19/20, which could have led to a material misstatement as these assets were not subject to annual indexation. Therefore the valuer performed additional testing at year end.

Based on our sample testing of a number of PPE and Investment Property assets outside of the EY Real Estates report, we were satisfied with the key asset information used, the useful lives of the assets tested and the accounting entries were correctly processed.

We are satisfied with the material valuation uncertainty disclosure in the Council’s accounts.



Areas of Audit Focus

Other areas of audit focus

Going Concern

What is the risk?

Covid-19 has created a number of financial pressures throughout Local Government. There is currently not a clear statement of financial support from MHCLG that covers all financial consequences of Covid-19. There have been a number of media stories in both the national press and trade publications raising the possibilities of an increase in Chief Financial Officers using their s114 powers. This could be under s114(3), insufficient resources to fund likely expenditure. CIPFA's Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 sets out that organisations that can only be discontinued under statutory prescription shall prepare their accounts on a going concern basis. However, International Auditing Standard 570 Going Concern, as applied by Practice Note 10: Audit of financial statements of public sector bodies in the United Kingdom, still requires auditors to undertake sufficient and appropriate audit procedures to consider whether there is a material uncertainty on going concern that requires reporting by management within the financial statements, and within the auditor's report. We are obliged to report on such matters within the section of our audit report 'Conclusions relating to Going Concern'. To do this, the auditor must review management's assessment of the going concern basis applying IAS1 Presentation of Financial Statements.

What did we do?

In light of the unprecedented nature of Covid-19, its impact on the funding of public sector entities and uncertainty over the form and extent of government support, we sought a documented and detailed consideration to support management's assertion regarding the going concern basis

Our audit procedures to review these included consideration of:

- Current and developing environment;
- Liquidity (operational and funding);
- Mitigating factors;
- Management information and forecasting; and
- Sensitivities and stress testing.

What are our conclusions?

Our work in response to this risk remains ongoing.

We are reviewing management's Going Concern assessment and supporting documentation in order to confirm their conclusion that the Council remains a Going Concern is based on reasonable and supportable assumptions.

We are satisfied the Going Concern Disclosure in the financial statements is sufficiently detailed, transparent and accurately reflects managements underlying Going Concern assessment.

Due to the impact of Covid-19, we are required to consult internally with our risk department over the level of disclosure. We are currently in the process of completing the consultation.



Areas of Audit Focus

Other areas of audit focus

Pension Liability Valuation

What is the risk?

The Code of Practice on Local Authority Accounting and IAS19 require the Council to make extensive disclosures within its financial statements regarding the Local Government Pension Scheme (LGPS) in which it is a scheduled body.

The Council's current pension fund deficit is a material and sensitive item and the Code requires that this liability be disclosed on the Council's balance sheet. The information disclosed is based on the IAS 19 report issued to the Council by the actuary to the administering body. Accounting for this scheme involves significant estimation and judgement. ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.

What judgements are we focused on?

We focused on the following:

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

What did we do?

- Liaised with the auditors of the administering authority (Hampshire County Council), to obtain assurances over the information supplied to the actuary in relation to New Forest DC.
- Assessed the work of the Pension Fund actuary including the assumptions they have used by relying on the work of PWC - Consulting Actuaries commissioned by National Audit Office for all Local Government sector auditors, and considering any relevant reviews by the EY actuarial team.
- Reviewed and tested the accounting entries and disclosures made within the Council's financial statements in relation to IAS19.
- Reviewed the Council's assessment of the impact of the 'McCloud' and 'Goodwin' judgement after the balance sheet event date.

What are our conclusions?

Our testing has no material misstatements.

We have concluded that we could rely on the work of the Pension Fund actuary, and assess their assumptions as reasonable. The values and entries from the actuarial report were correctly reflected in the Council's financial statements.

We have obtained the final relevant assurances from Hampshire Pension Fund auditors which raised no material issues from their review of the IAS19 protocol procedures.

Events after the year-end, the McCloud consultation and the Goodwin judgement, do not have a material impact on pension liability and do not require disclosure.



03 Audit Report



Audit Report

Draft audit report

Our opinion on the financial statements

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF NEW FOREST DISTRICT COUNCIL

Opinion

We have audited the financial statements of New Forest District Council for the year ended 31 March 2020 under the Local Audit and Accountability Act 2014. The financial statements comprise the:

- Movement in Reserves Statement,
- Comprehensive Income and Expenditure Statement,
- Balance Sheet,
- Cash Flow Statement,
- Collection Fund
- Housing Revenue Account
- Expenditure and Funding Analysis and the related notes 1 to 57.

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

In our opinion the financial statements:

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

Basis for opinion

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

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

Conclusions relating to going concern

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

- the Responsible Financial (s151) Officer's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Responsible Financial (s151) Officer has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Council's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The other information comprises the information included in the Annual Financial Report 2019/20 other than the financial statements and our auditor's report thereon. The Responsible Financial (s151) Officer is responsible for the other information.

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

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

We have nothing to report in this regard



Audit Report

Draft audit report

Our opinion on the financial statements

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

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

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

Matters on which we report by exception

We report to you if:

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

We have nothing to report in these respects

Responsibility of the Responsible Financial (s151) Officer

As explained more fully in the Statement of the Responsibilities set out on page 3, the Responsible Financial (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 2019/20, and for being satisfied that they give a true and fair view.

In preparing the financial statements, the Responsible Financial (s151) Officer is responsible for assessing the Council'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 Council either intends to cease operations, or have no realistic alternative but to do so.

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

Auditor's responsibilities for the audit of the financial statements

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

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



Audit Report

Draft audit report

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

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

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

We report if significant matters have come to our attention which prevent us from concluding that the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Council'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 the New Forest District Council in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice issued by the National Audit Office.

Use of our report

This report is made solely to the members of the New Forest 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 New Forest District Council and the New Forest District 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
xx October 2020



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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 and unadjusted differences

We highlight the following misstatements greater than £1.84m which have been corrected by management that were identified during the course of our audit. There are no corrected misstatements to bring to your attention.

We report to you any uncorrected misstatements greater than our nominal value of £0.12m. There was one uncorrected misstatement to bring to your attention at the time of writing this report:

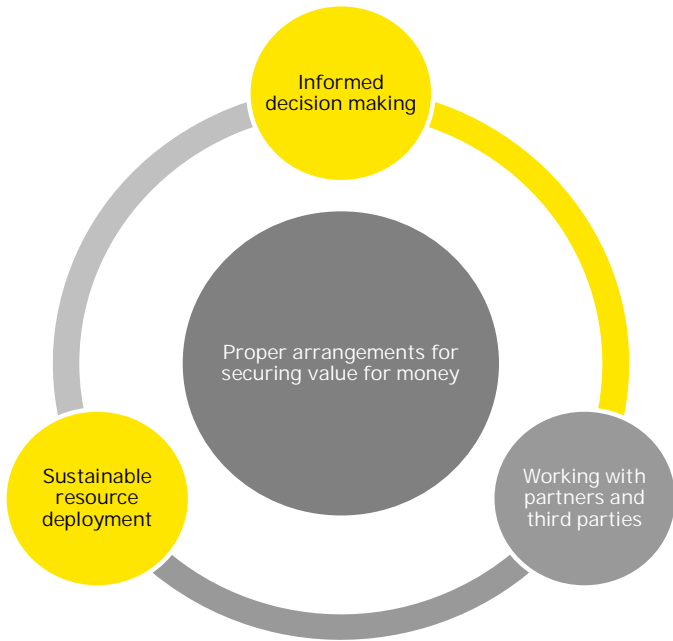
- Pension Asset Overstatement - £901k

The work of the Pension Fund auditors identified that the actuary has estimated the value of the New Forest District Council’s share of the Pension Fund’s Net Assets as of 31 March 2020 to be £177.1m. This is £901k more than the value we have calculated for New Forest District Council’s share of the Pension Fund’s Net Assets as per the draft accounts and the final rate of return on assets for the full year.

As the difference is not above our materiality level, we conclude that the balance is materially fairly stated and do not modify our audit opinion in respect of this matter.



05 Value for Money



Background

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

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

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

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

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

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

Impact of covid-19 on our Value for Money assessment

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

Overall conclusion

We did not identify any significant risks around these criteria.

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



06 Other reporting issues

Other reporting issues

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

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

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 Narrative Statement and published with the financial statements was consistent with the audited financial statements

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

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. The instruction for 2019/20 is yet to be issued.

While the instruction is still to be issued, the NAO have indicated there will not be a change in the threshold (£500m) for full procedures. Therefore, we anticipate that we will have no issues to raise.

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 Council to consider it or to bring it to the attention of the public (i.e. "a report in the public interest"). We did not identify any issues which required us to issue a report in the public interest.

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

Other 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 New Forest District Council's financial reporting process. We have no other matters to report.



07

Assessment of Control Environment

Assessment of Control Environment

Financial controls

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

As part of our audit of the financial statements, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. As we have adopted a fully substantive approach, we have therefore not tested the operation of controls.

Although our audit was not designed to express an opinion on the effectiveness of internal control we are required to communicate to you significant deficiencies in internal control.

We have not identified any significant deficiencies in the design or operation of an internal control that might result in a material misstatement in your financial statements of which you are not aware.

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



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08

Independence

Confirmation and analysis of Audit fees

We confirm there are no changes in our assessment of independence since our confirmation in our audit planning board report dated January 2020.

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

We consider that our independence in this context is a matter that should be reviewed by both you and ourselves. It is therefore important that you and your Audit Committee consider the facts of which you are aware and come to a view. If you wish to discuss any matters concerning our independence, we will be pleased to do so at the forthcoming meeting of the Audit Committee on 23 October 2020.

Our fees do not include the scale fee review which is currently underway with PSAA to agree whether the scale fees need to be rebased to properly account for the increased audit and quality requirements as well as increased regulatory challenge on the depth and quality of assurance provided by audit suppliers. There is now greater pressure on firms to deliver higher quality audits by requiring auditors to demonstrate greater professional scepticism when carrying out their work. This has resulted in auditors needing to exercise greater challenge to the areas where management makes judgements or relies upon advisers, for example, in relation to estimates and related assumptions within the accounts. Discussions with PSAA remain ongoing.

As part of our reporting on our independence, we set out below a summary of the fees you have paid us in the year ended 31 March 2020.

We confirm that we have not undertaken non-audit work.

Description	Final Fee 2019/20 £	Planned Fee 2019/20 £	Final Fee 2018/19 £
Audit Fee – Code work	£43,522 ⁽¹⁾	£42,721	£44,103
Additional Covid-19 Related Costs	TBC ⁽²⁾	N/A	N/A
Total Audit Fee	TBC	£42,721	£44,103

All fees exclude VAT

Note

- 1) An additional Scale Fee Variation of £801 has been submitted for IAS 19 Protocol Assurance provided by the Hampshire Pension Fund Auditors
- 2) We will hold discussions with officers regarding the additional fee for the work required in relation to Covid-19, specifically in relation additional costs for PPE & IP valuation work and going concern work

The final fee for our Code work will be confirmed upon completion of the audit

Other communications

EY Transparency Report 2019

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 2019:

https://assets.ey.com/content/dam/ey-sites/ey-com/en_uk/about-us/transparency-report-2019/ey-uk-2019-transparency-report.pdf







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09 Appendices

Appendix A

Required communications with the Audit Committee

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

 Our Reporting to you		
Required communications	 What is reported?	  When and where
Terms of engagement	Confirmation by the 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 – January 2020
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified.	Audit Planning Report – January 2020
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 – October 2020

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		Our Reporting to you
Required communications	What is reported?	When and where
Going concern	<p>Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:</p> <ul style="list-style-type: none"> • Whether the events or conditions constitute a material uncertainty • Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements • The adequacy of related disclosures in the financial statements 	No conditions or events were identified, either individually or together to raise any doubt about New Forest District Council's ability to continue for the 12 months from the date of our report
Misstatements	<ul style="list-style-type: none"> • Uncorrected misstatements and their effect on our audit opinion • The effect of uncorrected misstatements related to prior periods • A request that any uncorrected misstatement be corrected • Material misstatements corrected by management 	Audit Results Report – October 2020
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 – October 2020
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 Council • 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 Council, 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. 	<p>Audit results report – October 2020</p> <p>Enquiries were made during the audit, and there are no issues to report to you.</p>

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		Our Reporting to you
Required communications	What is reported?	When and where
Related parties	<p>Significant matters arising during the audit in connection with the Council’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 Council 	<p>Audit Results Report – October 2020</p> <p>No issues to report</p>
Independence	<p>Communication of all significant facts and matters that bear on EY’s, and all individuals involved in the audit, objectivity and independence.</p> <p>Communication of key elements of the audit engagement partner’s consideration of independence and objectivity such as:</p> <ul style="list-style-type: none"> • The principal threats • Safeguards adopted and their effectiveness • An overall assessment of threats and safeguards • Information about the general policies and process within the firm to maintain objectivity and independence <p>Communications whenever significant judgments are made about threats to objectivity and independence and the appropriateness of safeguards put in place.</p>	<p>Audit Planning Report – January 2020</p> <p>Audit Results Report – October 2020</p>

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

Appendix A

Our Reporting to you

Required communications	What is reported?	When and where
Written representations we are requesting from management and/or those charged with governance	<ul style="list-style-type: none"> Written representations we are requesting from management and/or those charged with governance 	Audit results report – October 2020
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 – October 2020 No issues to report
Auditors report	<ul style="list-style-type: none"> Any circumstances identified that affect the form and content of our auditor’s report 	Audit results report – October 2020 No such circumstances identified
Fee Reporting	<ul style="list-style-type: none"> Breakdown of fee information when the audit planning report is agreed Breakdown of fee information at the completion of the audit Any non-audit work 	Audit Planning Report – January 2020 Audit results report – October 2020
Certification work	<ul style="list-style-type: none"> Summary of certification work 	Audit results report – October 2020

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Management representation letter

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 New Forest District Council ("the Council") for the year ended 31 March 2020. We recognise that obtaining representations from us concerning the information contained in this letter is a significant procedure in enabling you to form an opinion as to whether the financial statements give a true and fair view of the financial position of New Forest District Council as of 31 March 2020 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 2019/20.

We understand that the purpose of your audit of our financial statements is to express an opinion thereon and that your audit was conducted in accordance with International Standards on Auditing (UK), 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 2019/20.

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 2019/20. 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 2019/20, 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

Management Rep Letter

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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 Council’s activities, its ability to continue to operate, or to avoid material penalties;
 - involving management, or employees who have significant roles in internal controls, or others; or
 - in relation to any allegations of fraud, suspected fraud or other non-compliance with laws and regulations communicated by employees, former employees, analysts, regulators or others.

C. Information Provided and Completeness of Information and Transactions

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

2. All material transactions have been recorded in the accounting records and all material transactions, events and conditions are reflected in the financial statements, including those related to the COVID-19 pandemic.
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: 23 October 2020.
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 significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable.
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 (26 July 2019) through the date of this letter we have disclosed to you any unauthorized access to our information technology systems that either occurred or to the best of our knowledge is reasonably likely to have occurred based on our investigation, including of reports submitted to us by third parties (including regulatory agencies, law enforcement agencies and security consultants) , to the extent that such unauthorized access to our information technology systems is reasonably likely to have a material impact to the financial statements, in each case or in the aggregate.

Management representation letter

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. Subsequent Events

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

F. Other information

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

G. Going Concern

1. Note 56 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.

H. Reserves

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

G. Use of the Work of a Specialist

1. We agree with the findings of the specialists that we engaged in generating the IAS19 pension disclosures and PPE valuations 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.

H. Estimates

1. We believe that the measurement processes, including related assumptions and models, used to determine the accounting estimates have been consistently applied and are appropriate in the context of the applicable financial reporting framework.
2. We confirm that the significant assumptions used in making the valuation of PPE & IP assets, and the IAS19 disclosure estimates appropriately reflect our intent and ability to carry out specific courses of action on behalf of the entity.
3. We confirm that the disclosures made in the financial statements with respect to the accounting estimates are complete, including the effects of the COVID-19 pandemic, and made in accordance with the applicable financial reporting framework.
4. We confirm that no adjustments are required to the accounting estimates and disclosures in the financial statements due to subsequent events, including due to the COVID-19 pandemic.

I. 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.

Management representation letter

Management Rep Letter

Signed on behalf of New Forest District Council

I confirm that this letter has been discussed and agreed by the Audit Committee on XX October 2020

(Head of Finance (S151))

(Chairman of the Audit Committee)

About EY

EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.

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ED None

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THE ANNUAL GOVERNANCE STATEMENT NEW FOREST DISTRICT COUNCIL 2019/20

1. Scope of Responsibility

New Forest District Council is responsible for ensuring that its business is conducted in accordance with the law, proper standards are adhered to and that public money is safeguarded, properly accounted for and used economically, efficiently and effectively. It has a duty under the Local Government Act 1999, to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to best value. In discharging this overall responsibility New Forest District Council is required to have in place proper arrangements for the governance of the Council's affairs, facilitating the effective exercise of its functions and arrangements for the management of risk.

New Forest District Council has approved and adopted a Code of Good Governance, which is consistent with the principles of the CIPFA/SOLACE Framework "Delivering Good Governance in Local Government". This Statement explains how New Forest District Council has complied with the Code and also meets the requirements of regulation 13 of the Accounts & Audit Regulations 2015 in relation to the publication of a statement of corporate governance.

2. The Purpose of the Governance Framework

The governance framework comprises the systems and processes, as well as the culture and values, by which the authority is directed and controlled and its activities, through which it accounts to, engages with and leads the community. It enables the Authority to monitor the achievements of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost effective services.

The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure in delivery of policies, achieving aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the Council's policies, aims and objectives, to evaluate the likelihood of those risks materialising and the impact should they be realised, and to manage them efficiently, effectively and economically.

3. The Governance Framework

The good governance framework centres on the following 7 core principles:

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

Following District elections in May 2019, 'Community Matters', the Council's Corporate Plan for 2020-2024 was approved in March 2020 and focuses on the challenges faced and the plans to address them. It recognises the ongoing financial constraints, whilst building on the strong financial position created and sets priorities that matter to the people of the District to deliver a prosperous New Forest and put the community first.

The Council is concerned to ensure that quality of service delivery is maintained at a time of financial constraint and uses a variety of mechanisms to assess this. This helps inform future service delivery.

The Council continually revises its Medium Term forecast according to latest information received around likely funding levels and expenditure increases. The Council's current strong financial position and on-going efficiencies programme (including the development of new income generation initiatives) will help protect front-line service delivery and is underpinned by the healthy General Fund reserve, will enable the Council to respond to changes accordingly.

During 2020, the world-wide Coronavirus COVID-19 pandemic has impacted global economies in ways that haven't been seen for decades. The UK's response has included an unprecedented package of financial measures to try and protect the UK economy.

Local Authorities have been significantly impacted with disruption to services, enforced home-working, new legislation and responsibilities and more recently playing a role in the recovery phase.

At a meeting in June, the Council's Cabinet agreed that the Council would need to re-cast the Medium Term Financial Plan, including the provision of an Emergency Budget for 2020/21 in light of the severity of the impact to the Council's budget. Four Task and Finish Groups have been established to assist in the Council's recovery plan and meetings commenced in the week of 22/06/2020.

Over the years, the Council has developed a number of successful joint or collaborative working arrangements with other public partners. This has continued into 2019/20 and includes arrangements with Hampshire County Council (in respect of Audit and Treasury functions) and a joint Information Office 'The Ringwood Gateway' between Ringwood Town Council, HCC and the District Council.

The Council's Constitution sets out how the Council operates, including the roles, responsibilities and relationships between Council, the Executive (Cabinet), Audit Committee and other bodies such as the Overview and Scrutiny Panels and Officers in respect of policy and decision-making processes. There is a comprehensive scheme of delegations to officers to ensure timely decision-making. The Constitution also sets out details on Codes of Conduct and key policies such as Financial Regulations and Contract Standing Orders as to Contracts. It is important that the Council operates efficiently and transparently and is accountable to the local people.

The Constitution is reviewed and updated where opportunities for improvement are identified.

The Risk Management Framework is in place to ensure that risks to the Council in achieving its strategic objectives, both at a corporate and service level, are more consciously identified, assessed and managed. It aligns risk with existing arrangements, in particular the performance management framework with an assessment of risk forming part of the Service Planning processes.

In 2016 CIPFA/SOLACE carried out a review of their framework to ensure that it still reflects the environment in which Councils are operating and to also reflect the International framework which had been developed by CIPFA and the International Federation of Accountants (IFAC) in 2014. As a result of their review in April 2016 CIPFA/SOLACE published a new framework document "Delivering Good Governance in Local Government Framework 2016 Edition" with the key focus of governance processes and structures centring on the attainment of sustainable economic, societal and environmental outcomes. Council approved the revised code in April 2017 which follows the recommended text in the CIPFA/SOLACE framework.

4. Review of Effectiveness

The Council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of effectiveness is informed by the work of senior statutory officers within the authority who have responsibility for the development and maintenance of the governance environment, the Internal Audit's annual report, and also by comments made by the external auditors and other review agencies and inspectorates.

This Council has always maintained a strong internal control environment and sees risk management as an integral part of everyday management. It has long established principles on the way its business is conducted enabling good governance and control of risk. Factors that influence the control environment include; integrity, ethics, operating style and the way management and members assign responsibility and authority.

A summary of the review activities undertaken during 2019/20 are included below:

1. A number of Council policies were reviewed or new Plans/Policies implemented including:
 - The Local Plan;
 - A new Housing Allocation Policy;
 - Compulsory Purchase and Overriding Easements Policy;
 - Gas Safety, Legionella, Lifts and Lifting Equipment Policy;
 - Void and Mutual Exchange Policy;
 - ICT Security Policy updated;
 - The Council's Publication Scheme (which is updated regularly)
2. The Council's Executive Management Team has remained unchanged throughout 2019/20 offering continuity in the top tier of management within the Council.
3. The Council's arrangements for financial management and reporting are sound and are well documented. Proposals for asset maintenance expenditure are supported by a business case as are new requests for revenue resources. These are scrutinised initially by EMT and the relevant Service Portfolio Holder prior to inclusion within the budget setting process. The financial planning process also includes a review of proposals by the relevant Overview and Scrutiny Panels, before final budgetary proposals and the council tax levels are considered and approved by Council each year.
4. Financial monitoring is achieved by regular budgetary control reports to nominated budget holders, Executive Management Team, the relevant Portfolio Holder, and Cabinet. All elected Members have access to Cabinet Agendas and the financial reports; a process is in place to enable members to request additional, more detailed information and question any financial issues. Strong Overview and Scrutiny arrangements in place with an annual report of work carried out presented to Council.
5. In line with the continuous improvement culture of the Council, it is recognised that all Members and Officers of the Council must have the skills, knowledge and capacity that they need to discharge their responsibilities effectively and therefore significant emphasis is placed on continuous improvement and development. Following the elections in May 2019, a number of training sessions were arranged and run for all newly elected, and re-elected councillors.
6. The responsibility of S151 functions sits with the Chief Finance Officer who undertakes that statutory role. The Executive Head of Governance and Regulation is the Monitoring Officer, which is also a statutory role. All committee reports are reviewed by members of the Executive Management Team, as well as being provided to the Executive Head of Governance and Regulation (who is also the Council's Solicitor), prior to any decisions being made. This safeguards the Council to ensure that decisions are taken lawfully and that risks are properly considered.

7. The Council's financial management arrangements conform to the governance requirements of the CIPFA Statement on the Role of the Chief Financial Officer in Local Government (2010). A review of the Council's Financial Regulations was completed during 2017/18 with the new regulations presented to and endorsed by the Audit Committee. The new regulations went live during April 2018, following approval by full Council.
8. Performance Management ensures strategic monitoring with a focus on organisational and service based indicators, reflecting the aims and objectives of the Corporate Plan. A review of the Council's Performance Management Framework commenced during 2019/20 in light of the new Corporate Plan and will be finalised during 2020/21.
9. The Audit Committee meet regularly and training is available to all members to ensure they are clear in their responsibilities in providing an independent assurance to the Council in relation to the effectiveness of the Council's internal control environment, in accordance with Regulation 6 of the Accounts and Audit (England) Regulations 2015.
10. The Council reviewed its insurance and risk management arrangements and employed a new officer during 2019/20 with responsibility for these respective areas. The Council's approach to risk management has been long standing, although the annual review originally scheduled for March 2020 was temporarily postponed. The review and associated update to the Audit Committee will take place during 2020/21.
11. Internal Audit forms part of the internal control framework. It is a mandatory function whose primary aim is to ensure that the Chief Financial Officer's responsibilities, to maintain proper control over the Council's financial affairs, as defined by Section 151 of the Local Government Act 1972, are fully met. The Audit Committee has reviewed and approved the risk based audit plan and progress reports against the audit plan throughout the year. This risk based audit plan was also approved by the Section 151 Officer and the Executive Management Team. The Committee has also received reports and updates from the External Auditor.
12. The Internal Audit function is provided by the Southern Internal Audit Partnership (operated by Hampshire County Council) and accords with the Public Sector Internal Audit Standards. Internal Auditors are trained and have acted independently, objectively and ethically at all times. The Internal Audit Charter was approved during the year.
13. The Principal Auditor's annual opinion report, concluded that whilst Internal Audit are unable to give absolute assurance, the results of the reviews completed during the year have resulted in his overall opinion that:
 - sufficient assurance work has been carried out to allow a reasonable conclusion on the adequacy and effectiveness of New Forest District Council's internal control environment
 - New Forest District Council's framework of governance, risk management and control is 'Adequate' and audit testing has demonstrated controls to be working in practice
 - where weaknesses have been identified through internal audit review, Internal Audit have worked with the Council's management to agree appropriate corrective actions and a timescale for improvement.
14. Ernst & Young acts as the Council's independent external auditor. The Section 151 Officer and Chair of Audit Committee have responded openly to the External Auditor under the requirements of the International Auditing Standards.

15. All organisations, worldwide face increasing cyber related threats. The Council maintains sound standards and continually reviews opportunities to further strengthen these. The Council is a member of the Cyber security Information Sharing Partnership (CISP) and has signed up the South East Government Warning, Advisory and Reposting Point (providing information, knowledge and alerts on threat and incidents. The Audit Committee received an update during 2019/20 on cyber risks, and as a result of an adopted recommendation from that meeting, has since taken out a cyber insurance policy. ICT also reviewed the ICT Security Policy during 2019/20.
16. Internal Audit has reported an 'Adequate' opinion on the overall control environment. Three limited assurance audit opinions were given and monitoring of progress against the management actions of these audits has been conducted during 2019/20 and will continue into 2020/21 where necessary. The following audit areas have previously received high priority recommendations:
 - Payment Card Industry Data Security Standard Accreditation
 - Business Continuity
 - Good joint work underway with Hampshire County Council to test the Council's approach to business continuity. Also the Council's response to the Covid-19 pandemic starting March 2020 enabled it to fully test its business continuity arrangements with positive results. The new Covid-19 Task and Finish Groups will examine the outcome of the Council's response and will consider future ways of working and make appropriate recommendations.
17. The Council has developed an accurate and up to date draft Partnership Register during the year to ensure that terms of reference, the risks of collaborative working and the added value of partnership working is reviewed and suitably documented.
18. During 2019/20, the Council undertook a significant project to replace the aging and largely unsupported Financial Management System. Governance on this project was provided by way of a formal Board, containing 2 Executive Officers from the Council (including the S151 Officer), 2 Cabinet Members, 2 representatives from our third party implementation partner and our client manager from the software provider. During the implementation of this difficult project, a key motivation and outcome was to move away from extreme levels of NFDC customisations to the more standard product and processes that are used more readily across the user base.

5. Significant Governance Issues

Whilst there have been a number of improvements made throughout the year, the Council constantly strives for continuous improvement. The following significant areas will be included in the action plan:

1. Payment Card Industry Data Security Standard Accreditation
2. A review of the new workflow processes as included within the new Finance System to ensure their appropriateness in offering suitable financial control and management

6. Certification

To the best of our knowledge, governance arrangements, as defined above, have been in place at New Forest District Council for the year ended 31st March 2020 and up to the date of approval of the annual report and statement of accounts.

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

Signed:

Leader of the Council

Signed:

Chief Executive

Date:

Date:

Annual Governance Statement Action Plan for 2020/21

Heading	Update / Action	Responsible	Target
PCI Accreditation	<p>Work is underway on PCI accreditation in light of the recent changes to the Finance System and Telephone Payment System.</p> <p>Action: to finalise the process in relation to seeking PCI accreditation</p>	Chief Finance Officer	March 2021
Finance System Workflow	<p>Following the implementation of the new finance system which went live on 1/4/20, a review will be undertaken to provide assurance on the suitability of the adopted workflow processes imbedded within it.</p> <p>Action: to complete an audit review of the new workflow processes within the new Finance System</p>	Chief Finance Officer	March 2021

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Annual
Financial
Report
2019/2020



NEW FOREST DISTRICT COUNCIL
ANNUAL FINANCIAL REPORT - YEAR ENDED 31 MARCH 2020

CHAIRMAN OF THE COUNCIL

Councillor A Glass

LEADER OF THE COUNCIL

Councillor B Rickman

CHIEF EXECUTIVE Mr R Jackson

RESPONSIBLE FINANCIAL (S151) OFFICER Mr A Bethune

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STATEMENT OF RESPONSIBILITIES

1. The Authority's Responsibilities

The Authority 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 authority, that officer is the Responsible Financial (s151) Officer;
- manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets; and
- approve the statement of accounts.

I confirm that these accounts were approved by Members of the Audit Committee at the meeting held on 23 October 2020.

**Cllr A O'Sullivan
Audit Committee Chairman**

23 October 2020

2. The Responsible Financial (s151) Officer's Responsibilities

The Responsible Financial (s151) 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 of Practice').

In preparing this statement of accounts, the Responsible Financial (s151) Officer has:

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

The Responsible Financial (s151) Officer has also:

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

I certify that the statement of accounts presents a true and fair view of the financial position of New Forest District Council at 31 March 2020 and the income and expenditure for that year ended.

Mr A Bethune FCCA – Responsible Financial (s151) Officer

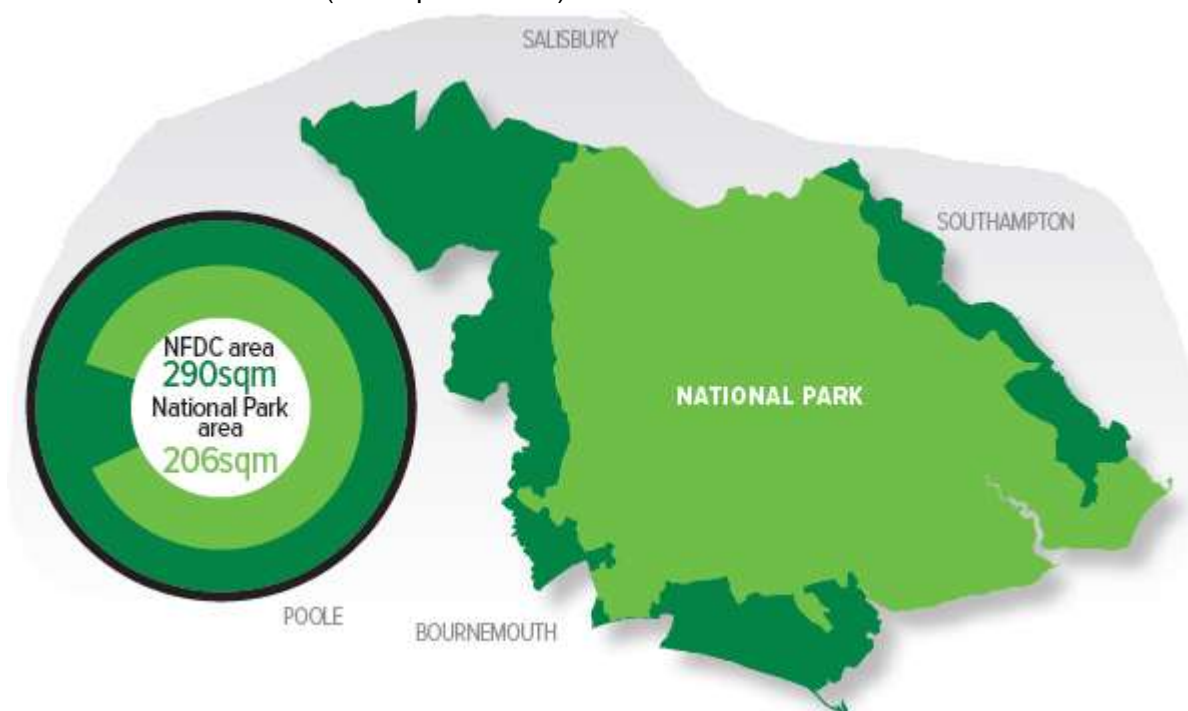
23 October 2020

NARRATIVE STATEMENT

1. Foreword from the Council's Responsible Financial Officer

The New Forest

The local government administrative area of New Forest District Council (290 square miles) includes the New Forest National Park (206 square miles).



Within the district there are 145 square miles of Crown land, managed by the Forestry Commission. The district is one of the most populated in England (circa 180,000) not to be a unitary authority and within its boundaries there are 37 active Town and Parish Councils. Hampshire County Council is responsible for upper tier services.

The New Forest is home to the third largest economy in Hampshire, with a total Gross Value Added of £4.4billion. The district contains over 8,000 businesses in total, which is more than any other local authority in Hampshire, including the cities of Southampton and Portsmouth. 89% of businesses in the district are micro in size employing fewer than 10 people. Self-employment is relatively high at over 11% and unemployment is consistently lower than in the rest of the country. Leisure, tourism and marine along with their associated supply chains are significant employment and economic sectors within the district.

Average earnings are low with 60% of the working population earning less than the UK average. This, and the high average house price, results in significant cross commuting between those who work in the forest but can't afford to live there, and those who can afford to live within the district but work elsewhere. The district council is located between the two major conurbations of Southampton and Bournemouth.

Housing, and particularly affordable housing, for local people is a particular issue in the district. The district council manages its own housing stock (over 5,000 properties) and the Council's new allocation policy manages the waiting list to ensure those in the greatest need have the best chance of securing a Council owned property.

NARRATIVE STATEMENT

Corporate Plan and Council Priorities

The Council is led by 60 Councillors and elections took place in May 2019. The Political make-up of the Council following those elections is: 46 Conservative, 13 Liberal Democrat and 1 Independent.

Community Matters, the Council's Corporate Plan for 2020-2024, focuses on the challenges faced and the plans to address them. It recognises the ongoing financial constraints, whilst building on the strong financial position created and sets priorities that matter to the people of the District to deliver a prosperous New Forest and put the community first.

The commitments of Community Matters are:

- Delivering a prosperous New Forest and putting our community first
- Encouraging development that meets local needs and enhances the special qualities of the environment
- Creating balanced communities and housing options that are affordable and sustainable
- Keeping our communities safe and listening to their needs
- Enabling service provision and ensuring value for money for the council tax payer
- Improving the health and wellbeing of our community
- Working to tackle climate change and enhancing our special environment
- Helping local businesses grow and prosper

Community Matters was approved in March 2020 and so 2019/20 was something of a transition year between Corporate Plans. Future performance reporting will be based on the Performance Management Framework that is currently under development to support the delivery of Community Matters including progress against the achievement measures set out in the plan.

Key Achievements realised during 2019/20 against the Portfolios are outlined in the Annual Performance Report, reported to Cabinet in July 2020.

In light of the Covid 19 crisis the priorities set within the Corporate Plan may need to be revisited as recovery efforts and new ways of life are established.

Future Financial Outlook

The Council continues to deliver essential front-line services to the c180,000 residents of the New Forest, despite significant funding reductions from Central Government since austerity measures were introduced, now over 10 years ago. Significant efficiencies have been realised over the period and income generation has increased. This Council has an excellent track record of delivering the same, or in some instances improved services, at a lower overall cost.

The Council also has a new Housing Strategy, in which the Council has targeted the ownership of 600 additional homes by 2026 and is prepared to spend circa £100 million over this period in delivering this target. The Council has a well-established Housing Revenue Account, which is well placed to support and manage additional stock numbers. As the largest registered provider of social housing in the district, the Council recognises it has an important role to play in the delivery of new affordable homes to those wanting to work and live in the New Forest.

NARRATIVE STATEMENT

The latest Medium Term Financial Plan, that accompanied the setting of the 2020/21 budget, highlighted the likely impact that the Fair Funding Review and the potential that a 'hard' Business Rates reset will have on the Council's finances. Despite this, the plan outlined proposals in place to address the funding gap and demonstrate a balanced budget through to 2022. Proposals included efficiency savings, a service delivery review and the generation of new additional income through the Commercial and Residential Property Strategies. As explored further below, the Councils budget for 2020/21 and Medium Term Financial Plan is now in need of a fairly fundamental refresh.....

COVID-19

The UK's response to the world-wide Coronavirus COVID-19 pandemic has included an unprecedented package of financial measures to try and protect the UK economy. It was not until near the end of 2019/20 that Coronavirus began to cause significant disruption to the UK. Most of the financial impact will therefore be shown within the accounts for 2020/21 rather than 2019/20.

Local Authorities have been impacted with disruption to services, enforced home-working, new legislation and responsibilities and more recently playing a role in the recovery phase. Although government support packages to the Public Sector have been announced, it is apparent that the Council will need to utilise its own resources to fully finance the losses in revenue to 2020/21.

At a meeting in June 2020, the Council's Cabinet agreed that the Council would need to re-cast the Medium Term Financial Plan, including the provision of an Emergency Budget for 2020/21 in light of the severity of the impact to the Council's budget. Four Task and Finish groups have been established to assist in the Council's recovery plan and meetings commenced in the week of 22 June 2020 with the first set of recommendations being adopted by the Cabinet in July. The Council is also providing regular financial reporting updates to the MHCLG and is keeping well informed of the new funding support measures that are being announced.

The Council's recent investment in ICT has enabled a very smooth transition to home working for the majority of the office-based work force. Some employees were also redeployed into other roles to assist in the Council's new responsibilities with regards to supporting the most vulnerable, and supporting operational areas of the Council working with reduced employee numbers due to employees being impacted by the shielding measures introduced by the government.

The Council's £3m general budget reserve will be utilised if necessary to assist in re-balancing the 2020/21 General Fund budget. The Council's overall financial sustainability will not be significantly impacted as a result and plans will be put in place to ensure that the General Budget Reserve is fully reinstated within an appropriate timeframe.

In producing the accounts to 31 March 2020, the impact of COVID-19 has been considered in the context of a Post Balance Event, but ultimately no adjustment is necessary in terms of the accounts being produced in a manner befitting with a 'Going Concern' status.

NARRATIVE STATEMENT

2. The Statement of Accounts

The accounts for 2019/20 comprise the following statements:

- **Comprehensive Income and Expenditure Statement**

This statement shows the accounting cost in the year of providing General Fund and Housing Revenue Account services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation and housing rents. The Council raises taxation and rents to cover expenditure in accordance with statutory requirements; this may be different from the accounting cost. The taxation and rents position is shown in both the Expenditure and Funding Analysis and the Movement in Reserves Statement.

**Expenditure and Funding Analysis
(supporting note to the Comprehensive Income and Expenditure Statement)**

The Expenditure and Funding Analysis shows how annual expenditure is used and funded from resources (government grants, rents, council tax and business rates) by the Council in comparison with those resources consumed or earned in accordance with generally accepted accounting practices. It also shows how this expenditure is allocated for decision making purposes between the Council's Portfolios. Income and expenditure accounted for under generally accepted accounting practices is presented more fully in the Comprehensive Income and Expenditure Statement.

- **Movement in Reserves Statement**

This statement shows the movement from the start of the year to the end 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 that 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 and Housing Revenue Account Balance movements in the year following those adjustments.

- **Balance Sheet**

This statement shows the value, as at the Balance Sheet date, of the Council's recognised assets and liabilities. The net assets of the Council (assets less liabilities) are matched by the reserves held by the Council. Reserves are reported in two categories. The first category is usable reserves, i.e. those reserves that the Council may use to provide services, subject to any statutory limitations and the need to maintain prudent reserve levels. The second category is reserves that the Council cannot use to provide services. This category includes reserves that hold unrealised gains and losses (e.g. 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".

NARRATIVE STATEMENT

- **Cash Flow 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 the 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.

- **Housing Revenue Account (HRA) Income and Expenditure Statement**

This statement shows the economic cost in the year of providing Council Housing services in accordance with generally accepted accounting practices rather than the amount to be funded from rents. The Council charges rents to cover net expenditure incurred in accordance with regulations, which is different from the accounting cost. The increase or decrease in the year, on the basis of which rents are raised, is shown in the HRA section of the Movement in Reserves Statement.

- **Collection Fund**

This is an agent's statement that reflects the statutory obligation of the Council, as a billing Authority, to maintain a separate Collection Fund. The statement shows the transactions of the billing authority in relation to the collection of council tax and non-domestic rates from taxpayers and the distribution of the income to local authorities and the Government. While there is only one Collection Fund, separate statements are shown for council tax and non-domestic rates, due to the complexity of non-domestic rates transactions under the Retention Scheme that was introduced in 2013/14.

NARRATIVE STATEMENT

3. Financial Performance during the Year

As at 31 March 2020 the Council had net assets of £273 million.

The majority of this net worth is in the Portfolio of Council Dwellings, valued at £376 million, offset with a debt liability of £131 million. Operational Land and Buildings total £69 million, Investment Properties £9 million, and other long-term assets and investments total £31 million. Cash and short-term investments total £39 million. The council has a net pension liability of £99 million. This is explained in more detail in section 4 of this narrative statement.

Usable reserves total £48 million (a decrease of £7 million from 2018/19), with £4 million of the total being earmarked to support the visible delivery of the General Fund (£3 million) and Housing Revenue Account (£1 million).

- **General Fund**

This section provides a summary of General Fund performance for the year in a simplified format that is consistent with the Council's published revenue budget and in a format used for operational budget monitoring throughout the year. All actual figures are included within the Comprehensive Income and Expenditure Statement.

The 2019/20 original net budget requirement for the General Fund was £17.492 million, an increase of £249,000 from 2018/19. The Council's budget anticipated being funded £12.3 million from Council Tax (including a £5 increase) and £5.7 million from retained business rates. In order to support the delivery of a balanced budget over the Medium Term and to flatten out Business Rate Collection Fund adjustments, the budget allowed for £748,000 to be credited to the Budget Equalisation Reserve.

Net income shortfalls and additional expenditure pressures in services during the year were £859,000 (£1.285 million in services partially offset through direct transfers from earmarked reserves of £425,000). A one-off VAT refund of £834,000 was received and Interest Earnings were £436,000 ahead of the original target. Retained business rates were £527,000 below the original budget; this has resulted in a lower credit transfer to the to the Budget Equalisation Reserve.

	Original Budget	Actual	Variation
	£000	£000	£000
Net Service Expenditure	17,520	18,805	1,285
VAT Refund (Net of Assessment)	0	(834)	(834)
Revenue Financing of Capital	1,575	1,572	(3)
Interest Earnings (Net)	(730)	(1,166)	(436)
Other Unringfenced Government Grants	(526)	(526)	0
Net Budget Requirement	17,839	17,851	12
Transfer to/(from) Earmarked Revenue Reserves	(437)	(129)	308
Transfer to/(from) Capital Programme Reserve	90	(230)	(320)
Contributions to/(from) Reserves	(347)	(359)	(12)
General Fund Budget	17,492	17,492	(0)
Council Taxpayers	(12,321)	(12,321)	(0)
Collection Fund adjustment from previous years	(220)	(220)	(0)
Non-Domestic Rates Redistribution	(5,699)	(5,172)	527
Transfer to/(from) Business Rates Equalisation Reserve	748	221	(527)
(Increase)/Decrease in General Fund Balance	0	(0)	(0)

NARRATIVE STATEMENT

- **Housing Revenue Account**

The Housing Revenue account deficit for 2019/20 was £757,000 compared with an originally budgeted break-even position. Income was £286,000 higher than originally budgeted. There were increased levels of expenditure on Repairs and Maintenance of £753,000 and Supervision and Management of £218,000 in comparison to the original budgets. The balance on the account as at 31 March 2020 was £1 million, after allowing for the transfer of £757,000 from the earmarked Housing Acquisitions and Developments Reserve. The budget for 2020/21 anticipates a break-even position for the year.

	Original Budget	Actual	Variation
	£000	£000	£000
Income	(27,876)	(28,162)	(286)
Expenditure:			
Repairs and Maintenance	4,052	4,805	753
Supervision and Management	5,954	6,172	218
Capital Financing Costs	8,456	8,453	(3)
Other Expenditure	189	264	75
	(9,225)	(8,468)	757
Revenue Financing of Capital	9,225	9,225	0
(Surplus)/Deficit	(0)	757	757
Transfer to/(from) Earmarked Revenue Reserves	0	(757)	(757)
(Increase)/Decrease in Housing Revenue Account Balance	(0)	(0)	0

4. Pension Liability

The Council's Balance Sheet shows a net pension liability of £99.470 million, an increase of £6.378 million from 31 March 2019. Whilst this has a substantial impact on the net worth of the Council, as recorded in the Balance Sheet, statutory arrangements for funding the deficit mean that the financial position of the Council remains healthy, as the deficit on the scheme will be made good by increased contributions over the working lives of employees.

NARRATIVE STATEMENT

5. Long Term Asset Impairments/Revaluations

In 2019/20 net increases in asset values credited to the Income and Expenditure Statement were £2.142 million, but these were offset by capital expenditure not enhancing value of £12.852 million, to arrive at a net impairment of £10.710 million. This compares with a net impairment debit of £2.904 million in 2018/19. These items are reflected in the Net Cost of Services. In addition, a net £3.576 million was credited to the Revaluation Reserve (£4.230 million in 2018/19)

	2018/19	2019/20
	£000	£000
Income and Expenditure Statement / Capital Adjustment Account		
Revaluation Increases	(9,634)	(8,518)
Revaluation Decreases	1,140	6,376
Net Revaluation (Increases)/Decreases	(8,494)	(2,142)
Capital Expenditure not enhancing asset value	11,398	12,852
Total Income and Expenditure Statement Impairments	2,904	10,710
Revaluation Reserve		
Revaluation Increases	(4,356)	(4,136)
Revaluation Decreases	126	560
Total Revaluation Reserve	(4,230)	(3,576)
Total Impairments/Revaluations	(1,326)	7,134

NARRATIVE STATEMENT

6. Capital Expenditure

The level of approved capital expenditure is reviewed regularly throughout the year, to ensure that it is achievable within the estimated resources available. The original Capital Programme for 2019/20 (including the gross value of the Coastal Regional Monitoring Programme) was £27.919 million. This was initially supplemented by rephasings of £1.660 million from 2018/19. A review of the programme during the year as reported through Financial Monitoring increased the approved budget to £34.810 million. Actual expenditure of £27.481 million was £7.329 million less than the last approved budget, predominately in relation to lower expenditure on the Housing Acquisitions and Development Programme and scheme rephasings to 2020/21.

	Original Budget	Expenditure	Variance
	£000	£000	£000
Housing Revenue Account			
Major Repairs	6,415	6,214	(201)
Public Sector Disabled Adaptations	700	937	237
Acquisition and Development Programme	11,850	10,341	(1,509)
Environmental Enhancements	300	258	(42)
Property Extensions	150	0	(150)
	19,415	17,750	(1,665)
Environment and Regulatory Services			
Coast Protection*	1,714	1,443	(271)
Foreshores and Beach Huts	0	25	25
Cemeteries	0	74	74
Public Conveniences	350	424	74
	2,064	1,966	(98)
Finance, Corporate Services and Improvement			
Depots	940	97	(843)
Smarter Working	900	750	(150)
Information Technology	450	217	(233)
Vehicles, Plant and Equipment	1,586	632	(954)
	3,876	1,696	(2,180)
Housing Services			
Housing Private Sector Disabled Adaptations/Home Repair Loans	1,110	1,198	88
	1,110	1,198	88
Leisure and Wellbeing			
Eling Tide Mill	0	18	18
	0	18	18
Local Economic Development, Property and Innovation			
Commercial Property Investment	0	4,534	4,534
Residential Property Investment	0	226	226
	0	4,760	4,760
Planning and Infrastructure			
Transportation	264	43	(221)
Open Space	506	50	(456)
Mitigation Schemes	684	0	(684)
	1,454	93	(1,361)
	27,919	27,481	(438)
Less:			
Coastal Regional Monitoring Programme*	(1,714)	(1,286)	428
	26,205	26,195	(10)

NARRATIVE STATEMENT

The actual expenditure of £26.195 million was financed by:

	£000	%
Capital Reserve	7,069	26.99
Revenue Contributions to Capital	1,254	4.79
Loan - General	3,919	14.95
Capital Receipts	3,910	14.93
Grant	1,629	6.22
Developers' Contributions	93	0.35
Other (HRA Repairs and Maintenance)	8,321	31.77
	26,195	100.00

7. Funding of Future Capital Expenditure

The level of capital expenditure is reviewed and approved annually through the Capital Strategy, in accordance with the estimated resources available.

As at 31 March 2020 the Council had useable reserves/receipts of £39.903 million for capital expenditure purposes (Earmarked Reserves £14.360 million, Capital Programme Reserves £10.297 million, Developers' Contributions and Community Infrastructure Levy £10.084 million, Capital Grants Receipts in Advance £544,000 and Capital Receipts Reserve £4.618 million). These reserves may be supplemented by loans raised under Prudential Borrowing, grants, new capital receipts and contributions from the revenue accounts.

The approved original capital expenditure budget for 2020/21 is £25.694 million, including £15.8 million of schemes to be funded from Housing Revenue Account resources. The estimated total resources for 2020/21 will be sufficient to finance the Council's planned expenditure.

In February 2017, the Council approved a strategy to invest in commercial property. The strategy set out a £30 million fund and an initial intention to invest within the District, for the purpose of economic redevelopment and regeneration, or for the purposes of income generation or a mixture of both. The timing of prospective purchases is not known, and so the original budgets do not currently allow for any of this expenditure. In December 2017, the Council approved a strategy to invest in residential property, giving the Council the opportunity to become a private sector landlord with the benefit of a proven track record in rental property management. The financing of the future capital expenditure in relation to the roll-out of both investment strategies will be an appropriate mix of use of capital reserves, internal and prudential borrowing.

NARRATIVE STATEMENT

8. Current Economic Climate / Future Service Delivery

The Council's general fund balance reserve as shown within these 2019/20 accounts and as included in the setting of the 2020/21 budget is £3 million and is available to support the budget and delivery of services in any given year. Other General Fund earmarked reserves total £4.544 million. The Housing Acquisitions and Development Reserve is £14.360 million and the Housing Revenue Account balance is £1 million. In addition, the Housing Revenue Account ICT reserve is £410,000 as at 31 March 2020.

Council reserves will be called upon in 2020/21 due to the financial implications and scale of the financial challenge arising as a result of the COVID-19 pandemic. The implications are especially prevalent to income generation within the General Fund.

The Council's Medium Term Financial Plan as adopted in February 2020 included a forecast on the latest expectations with regards to Retained Business Rate income, pay and price expenditure pressures, and laid out areas of work underway that would make a significant contribution towards achieving a balanced budget over the Medium Term. A full and fundamental refresh of that Financial Plan is now required in light of the changes to the Council's financial position as a result of COVID-19.

COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

2018/19				2019/20			
Gross Expend £000	Gross Income £000	Net Expend £000		Note	Gross Expend £000	Gross Income £000	Net Expend £000
2,354	(505)	1,849	Community Affairs		2,566	(562)	2,004
12,465	(3,328)	9,137	Environment and Regulatory Services		12,996	(3,290)	9,706
46,650	(38,986)	7,664	Finance, Investment and Corporate Services		40,250	(34,327)	5,923
6,544	(5,053)	1,491	Housing Services		6,901	(4,573)	2,328
44	0	44	Leader and Corporate Affairs		45	0	45
8,488	(7,251)	1,237	Leisure and Wellbeing		9,894	(7,253)	2,641
637	(392)	245	Economic Development		837	(614)	223
6,514	(5,556)	958	Planning and Infrastructure		7,489	(5,457)	2,032
83,696	(61,071)	22,625	General Fund		80,978	(56,076)	24,902
22,324	(27,641)	(5,317)	Housing Revenue Account		28,492	(28,002)	490
106,020	(88,712)	17,308	Cost of Services		109,470	(84,078)	25,392
			Other Operating Expenditure				
5,738			Town and Parish Council Precepts		6,106		
574			Payments to the Government Housing Capital Receipts Pool		574		
	(1,231)		(Gains)/Losses on the disposal of Non-Current Assets			(1,365)	
			VAT Assessment / (Refund)		358	(1,192)	
80	(800)		Car Parks Non Domestic Rates Refund				
		4,361	Total Other Operating Expenditure				4,481
			Financing and Investment Income and Expenditure				
			Interest Payable and Similar Charges:				
40			- General Fund		26		
4,411			- HRA		4,339		
9			Expected Credit (Gain)/Loss on Investments			(1)	
	(108)		Changes in the fair value of Investments		1,419	(27)	
	(1,192)		Other Investment Income			(1,339)	
2,410			Net interest on the net defined benefit liability/(asset)	43	2,164		
	(788)		Income, expenditure and changes in the fair value of Investment Properties	12		(109)	
		4,782	Total Financing and Investment Income and Expenditure				6,472
			Taxation and Non-Specific Grant Income				
	(17,851)		Council Tax Income (incl. Parish precepts)			(18,660)	
	(5,903)		Non-Domestic Rates Income and Expenditure	45		(5,514)	
	(795)		Unringfenced Government Grants	45		(526)	
	(3,686)		Capital Grants and Contributions	45		(2,407)	
		(28,235)	Total Taxation and Non-Specific Grant Income				(27,107)
119,282	(121,066)	(1,784)	(Surplus)/Deficit on the Provision of Services	5	124,456	(115,218)	9,238
	(4,230)		(Surplus)/Deficit arising from the revaluation of Property, Plant and Equipment Assets			(3,577)	
(8,540)			Re-measurement of the defined benefit liability/(asset)	43	1,661		
		(12,770)	Other Comprehensive Income and Expenditure				(1,916)
		(14,554)	Total Comprehensive Income and Expenditure				7,322

Total Comprehensive Income and Expenditure has moved by £21.876 million between 2018/19 and 2019/20. The reasons for this are detailed in Note 6.

EXPENDITURE AND FUNDING ANALYSIS
(supporting note to the Comprehensive Income and Expenditure Statement)

	Income and Expenditure chargeable to the General Fund and HRA	Adjustments between the Funding and Accounting Basis	Net Expenditure for the equivalent amounts in the Comprehensive Income and Expenditure Statement
	£000	£000	£000
2019/20:			
Community Affairs	1,857	147	2,004
Environment and Regulatory Services	8,765	941	9,706
Finance, Investment and Corporate Services	5,234	689	5,923
Housing Services	2,125	203	2,328
Leader and Corporate Affairs	43	2	45
Leisure and Wellbeing	1,144	1,497	2,641
Economic Development	(88)	311	223
Planning and Infrastructure	1,473	559	2,032
General Fund	20,553	4,349	24,902
Housing Revenue Account	(8,436)	8,926	490
Cost of Services	12,117	13,275	25,392
Total Other Operating Expenditure	5,272	(791)	4,481
Total Financing and Investment Income and Expenditure	2,938	3,534	6,472
Total Taxation and Non-Specific Grant Income	(24,701)	(2,407)	(27,108)
(Surplus)/Deficit on the Provision of Services	(4,374)	13,611	9,237
Other Comprehensive Income and Expenditure	12,336	(14,251)	(1,915)
Total Comprehensive Income and Expenditure	7,962	(640)	7,322
Opening General Fund and HRA Balances	(4,000)		
Less Deficit/(Surplus) on General Fund and HRA in Year	7,962		
Transfer to/ (from) Earmarked Reserves	(7,962)		
Closing General Fund and HRA Balances	(4,000)		
2018/19:			
Community Affairs	1,772	77	1,849
Environment and Regulatory Services	8,653	484	9,137
Finance, Corporate Services and Improvement	4,697	2,967	7,664
Housing Services	1,394	97	1,491
Leader and Corporate Affairs	43	1	44
Leisure and Wellbeing	1,692	(455)	1,237
Local Economic Development, Property and Innovation	(9)	254	245
Planning and Infrastructure	689	269	958
General Fund	18,931	3,694	22,625
Housing Revenue Account	(9,690)	4,373	(5,317)
Cost of Services	9,241	8,067	17,308
Total Other Operating Expenditure	5,018	(657)	4,361
Total Financing and Investment Income and Expenditure	3,260	1,522	4,782
Total Taxation and Non-Specific Grant Income	(24,549)	(3,686)	(28,235)
(Surplus)/Deficit on the Provision of Services	(7,030)	5,246	(1,784)
Other Comprehensive Income and Expenditure	7,709	(20,479)	(12,770)
Total Comprehensive Income and Expenditure	679	(15,233)	(14,554)
Opening General Fund and HRA Balances	(4,000)		
Less Deficit/(Surplus) on General Fund and HRA in Year	679		
Transfer to/ (from) Earmarked Reserves	(679)		
Closing General Fund and HRA Balances	(4,000)		

See Note 5 for further analysis

MOVEMENT IN RESERVES STATEMENT

	General Fund Balance	Earmarked General Fund / HRA Reserves	Housing Revenue Account	Capital Programme Reserve	Capital Receipts Reserve	Community Infrastructure Levy Unapplied	Developers' Contributions Unapplied	Total Usable Reserves	Unusable Reserves	Total Authority Reserves
	£000	£000	£000	£000	£000		£000	£000	£000	
Balance at 31 March 2018	(3,000)	(25,843)	(1,000)	(12,409)	(5,915)	(2,277)	(3,089)	(53,533)	(212,411)	(265,944)
<i>Movement in reserves during 2018/19</i>										
(Surplus)/deficit on the provision of services	1,029	0	(2,813)	0	0	0	0	(1,784)	0	(1,784)
Other comprehensive income and expenditure	0	0	0	0	0	0	0	0	(12,770)	(12,770)
Total Comprehensive Income and Expenditure	1,029	0	(2,813)	0	0	0	0	(1,784)	(12,770)	(14,554)
Adjustments between accounting basis and funding basis under regulations (note 8)	(2,787)	0	5,250	0	114	(1,817)	(437)	323	(323)	0
Net (Increase)/Decrease Before Transfers to Earmarked Reserves	(1,758)	0	2,437	0	114	(1,817)	(437)	(1,461)	(13,093)	(14,554)
Transfers to/(from) earmarked reserves (notes 9/10)	1,758	685	(2,437)	(6)	0	0	0	0	0	0
(Increase) / Decrease in Year	0	685	0	(6)	114	(1,817)	(437)	(1,461)	(13,093)	(14,554)
Balance at 31 March 2019	(3,000)	(25,158)	(1,000)	(12,415)	(5,801)	(4,094)	(3,526)	(54,994)	(225,504)	(280,498)
<i>Movement in reserves during 2019/20</i>										
(Surplus)/deficit on the provision of services	5,772	0	3,466	0	0	0	0	9,238	0	9,238
Other comprehensive income and expenditure	0	0	0	0	0	0	0	0	(1,916)	(1,916)
Total Comprehensive Income and Expenditure	5,772	0	3,466	0	0	0	0	9,238	(1,916)	7,322
Adjustments between accounting basis and funding basis under regulations (note 8)	(3,747)	0	2,471	0	1,183	(1,118)	(721)	(1,932)	1,932	0
Net (Increase)/Decrease Before Transfers to Earmarked Reserves	2,025	0	5,937	0	1,183	(1,118)	(721)	7,306	16	7,322
Transfers to/(from) earmarked reserves (notes 9/10)	(2,025)	5,844	(5,937)	2,118	0	0	0	0	0	0
(Increase) / Decrease in Year	0	5,844	0	2,118	1,183	(1,118)	(721)	7,306	16	7,322
Balance at 31 March 2020	(3,000)	(19,314)	(1,000)	(10,297)	(4,618)	(5,212)	(4,247)	(47,688)	(225,488)	(273,176)

BALANCE SHEET AS AT 31 MARCH

2018/19			2019/20	
£000	£000		£000	£000
		Notes		
		Long-Term Assets		
		Property, Plant and Equipment:		
370,038		Council Dwellings	11	375,573
69,579		Other Land and Buildings	11	68,506
3,852		Vehicles, Plant and Equipment	11	3,236
3,712		Infrastructure	11	3,386
212		Community Assets	11	537
6,673	454,066	Assets Under Construction	11	4,312
				455,550
	5,181	Investment Property	12	9,454
	28,786	Long-Term Investments	14	18,636
	1,368	Long-Term Debtors	15	1,467
	<u>489,401</u>	Total Long-Term Assets		<u>485,107</u>
		Current Assets		
28,808		Short-Term Investments	16	20,062
338		Inventories	17	285
10,510		Short-Term Debtors	18	11,662
(2,429)		Bad Debt Provision	18	(2,667)
5,874		Cash and Cash Equivalents	19	18,553
	<u>43,101</u>	Total Current Assets		<u>47,895</u>
	532,502	Total Assets		533,002
		Current Liabilities		
(4,349)		Short-Term Borrowing	20	(4,348)
(18,109)		Short-Term Creditors	21	(24,055)
(62)		Developers' Contributions - Receipts in Advance	22	0
	<u>(22,520)</u>	Total Current Liabilities		<u>(28,403)</u>
		Long-Term Liabilities		
(131,207)		Long-Term Borrowing	23	(126,906)
(4,266)		Provisions	24	(3,878)
(168)		Capital Grants - Receipts in Advance	25	(544)
(751)		Developers' Contributions - Receipts in Advance	26	(625)
(93,092)		Net Pensions Liability	43	(99,470)
	<u>(229,484)</u>	Total Long-Term Liabilities		<u>(231,423)</u>
	280,498	Net Assets		273,176
		Usable Reserves		
3,000		General Fund Balance		3,000
25,158		Earmarked Reserves	9	19,314
1,000		Housing Revenue Account Balance		1,000
12,415		Capital Programme Reserve	10	10,297
5,801		Capital Receipts Reserve	27	4,618
4,094		Community Infrastructure Levy Unapplied	28	5,212
3,526	54,994	Developers' Contributions Unapplied	28	4,247
				47,688
		Unusable Reserves		
38,327		Revaluation Reserve	29	41,864
279,466		Capital Adjustment Account	30	283,315
172		Financial Instruments Revaluation Reserve	31	(1,219)
555		Deferred Capital Receipts Reserve	32	558
(93,092)		Pensions Reserve	33	(99,470)
369		Collection Fund Adjustment Account	34	722
(293)	225,504	Accumulating Absences Adjustment Account	38	(282)
				225,488
	280,498	Total Reserves		273,176

Mr A Bethune FCCA – Responsible Financial (s151) Officer

23 October 2020

CASH FLOW STATEMENT

2018/19		Notes	2019/20
£000			£000
(1,784)	Net (surplus) or deficit on the provision of services		9,238
(22,344)	Adjustments to net surplus or deficit on the provision of services for non-cash movements	35	(28,858)
5,200	Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities	35	3,169
(18,928)	Net cash flows from Operating Activities		(16,451)
11,024	Investing Activities	36	1,735
6,582	Financing Activities	37	2,037
(1,322)	Net (increase) or decrease in cash and cash equivalents		(12,679)
(4,552)	Cash and cash equivalents at the beginning of the reporting period		(5,874)
(5,874)	Cash and cash equivalents at the end of the reporting period	19	(18,553)

NOTES TO THE ACCOUNTS

1. ACCOUNTING POLICIES

i) General Principles

The Statement of Accounts summarises the Council's transactions for the 2019/20 financial year and its position at the year end of 31 March 2020. The Council is required to prepare an annual Statement of Accounts by the Accounts and Audit Regulations 2015. These Regulations require the accounts to be prepared in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 and the Service Reporting Code of Practice 2019/20 supported by International Financial Reporting Standards (IFRS).

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

ii) Accruals of Income and Expenditure (Debtors and Creditors)

The accounts of the Council are prepared on an accruals basis. This means that the sums due to or from the Council during the year are included in the accounts, whether or not the cash has actually been received or paid in the year in question. In particular:

- Income from fees, charges and rents is recognised when the Council provides the relevant goods or services.
- Supplies and services expenditure is recorded as expenditure when the supplies or services 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.
- Interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.
- Where income or expenditure has been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.

Accruals have been made for all known material revenue and capital debtors and creditors for goods and services supplied by and to the Council during the year.

Exceptions to this policy are housing benefit payments, housing rents, utility costs and similar quarterly payments that are not apportioned when the period of charge does not coincide exactly with the end of the financial year. This policy is consistently applied each year and therefore does not have a material effect on the year's accounts.

NOTES TO THE ACCOUNTS

iii) Cash and Cash Equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are investments that mature or can be called within 24 hours and that are readily convertible to known amounts of cash with insignificant risk of change in value.

The Council will treat the following as cash and cash equivalents:

- Instant Access Call Accounts
- Instant Access Money Market Funds
- Deposits with one day to maturity

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

iv) Changes in Accounting Policies, Material Errors and Changes in Accounting Estimates

Prior period adjustments may arise as a result of a change in accounting policies or to correct a material error.

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

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

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.

v) Charges to Revenue for Non-Current Assets

Services, support services and trading accounts are debited with the following amounts to record the cost of holding fixed assets during the year:

- Depreciation attributable to the assets used by the relevant service
- Revaluation and impairment losses on assets used by the service where there are no accumulated gains in the Revaluation Reserve against which the losses can be written off
- Amortisation of intangible fixed assets attributable to the service

The Council is not required to raise council tax to fund depreciation, revaluation and impairment losses or amortisations. Charges are therefore mitigated by way of an adjusting transaction with the Capital Adjustment Account via the Movement in Reserves Statement. The Council is however required to make an annual contribution from revenue towards the reduction in its overall borrowing requirement. This is calculated on a prudent basis determined by the Council in accordance with statutory guidance.

NOTES TO THE ACCOUNTS

vi) Contingent Assets

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

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

vii) Contingent Liabilities

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

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

viii) Employee Benefits

Benefits Payable During Employment

Short-term employee benefits are those due to be settled within 12 months of the year-end. They include such benefits as wages and salaries, paid annual leave and paid sick leave, bonuses and non-monetary benefits for current employees and are recognised as an expense for services in the year in which employees render service to the Council. An accrual is made for the cost of holiday entitlements (or any form of leave e.g. flexi time) earned by employees but not taken before the year-end which employees can carry forward into the next financial year. The accrual is made at the wage and salary rates applicable in the following accounting year, being the period in which the employee takes the benefit. The accrual is charged to Surplus or Deficit on the Provision of Services, but then reversed out through the Movement in Reserves Statement so that benefits are charged to revenue in the financial year in which the absence occurs.

Termination Benefits

Termination benefits are amounts payable as a result of a decision by the Council to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy. They are charged to services on an accruals basis in the Comprehensive Income and Expenditure Statement when the Council is demonstrably committed to the termination of the employment of an officer or group of officers or making an offer to encourage voluntary redundancy.

Where termination benefits involve the enhancement of pensions, statutory provisions require the General Fund balance to be charged with the amount payable by the Council to the pension fund or pensioner in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, appropriations are required to and from the Pensions Reserve to remove the notional debits and credits for pension enhancement termination benefits and replace them with debits for the cash paid or payable to the pension fund and pensioners.

NOTES TO THE ACCOUNTS

Post Employment Benefits

Most employees of the Council are members of the Local Government Pensions Scheme, administered by Hampshire County Council.

Detailed regulations govern rates of contribution and scales of benefits, the latter normally being in the form of a lump sum and annual pension.

The Local Government Scheme is accounted for as a defined benefits scheme:

- * The liabilities of the Hampshire pension fund attributable to the Council are included in the Balance Sheet on an actuarial basis using the projected unit method – i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc, and projections of projected earnings for current employees.
- * Liabilities are discounted to their value at current prices, using a calculated discount rate based on a series of calculations for high quality corporate bonds over a range of periods.
- * The assets of Hampshire pension fund attributable to the Council are included in the Balance Sheet at their fair value:
 - quoted securities – current bid price
 - unquoted securities – professional estimate
 - unitised securities – current bid price
 - property – market value.
- * The change in the net pensions liability is analysed into the following components:
- * **Service cost comprising**
 - **Current service cost** – the increase in liabilities as a result of years of service earned this year – allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked.
 - **Past service cost** – the increase in liabilities as a result of a scheme amendment or curtailment whose effect relates to years of service earned in earlier years – debited to the Cost of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs.
 - **Net interest on the net defined benefit liability (asset)** – 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. It 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.

NOTES TO THE ACCOUNTS

Re-measurements comprising

- **Return on plan assets** – excluding amounts included in net interest on the net defined benefit liability (asset), charged to the Pensions Reserve as Other Comprehensive Income and Expenditure.
- **Actuarial Gains and Losses** – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure.
- **Contributions paid to the Hampshire pension fund** – cash paid as employer's contributions to the pension fund in settlement of liabilities - not accounted for as an expense.

In relation to retirement benefits, statutory provisions require the General Fund balance to be charged with the amount payable by the Council to the pension fund or directly to pensioners in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, this means that there are appropriations to and from the Pensions Reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid or payable to the pension fund and pensioners. The negative balance that arises on the Pensions Reserve thereby measures the beneficial impact to the General Fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits are earned by employees.

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

ix) Events after the Balance Sheet Date

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

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

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

x) Exceptional Items

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

NOTES TO THE ACCOUNTS

xi) Financial Instruments

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

Financial liabilities are obligations to transfer economic benefits controlled by the Council and can be represented by contractual obligations to deliver cash or financial assets or obligations to exchange financial assets and liabilities with another entity that is potentially unfavourable to the Council.

The Council's financial liabilities held during the year are measured at amortised cost.

Financial Assets are rights to future economic benefits controlled by the Council that are represented by cash, equity instruments or contractual rights to receive cash or other financial assets or a right to exchange financial assets and liabilities with another entity that is potentially favourable to the Council. The financial assets held by the Council are accounted for under the following classifications:

Amortised Cost – where cash flows are solely payments of principal and interest and the Council's business model is to collect those cash flows

Fair value through other comprehensive income – where cash flows are solely payments of principal and interest and the Council's business model is to both collect those cash flows and sell the instrument and equity investments that the Council has elected into this category

Fair value through profit and loss – all other financial assets

xii) Foreign Currency Translation

Where the Council has entered into a transaction denominated in a foreign currency, the transaction is converted into sterling at the exchange rate applicable on the date the transaction was effective. Where amounts in foreign currency are outstanding at the year-end they are reconverted at the exchange rate at 31 March. Resulting gains or losses are recognised in the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

NOTES TO THE ACCOUNTS

xiii) Government Grants and Contributions

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

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

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

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

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

xiv) Heritage Assets

The Council has concluded that obtaining valuations for currently held Heritage Assets would involve a disproportionate cost in comparison to the benefits to the users of Council's financial statements and therefore has not recognised the assets on the Balance Sheet. Should the Council obtain any additional Heritage Assets in the future each asset would be considered for inclusion at the time.

xv) Intangible Assets

The Council accounts for expenditure on Intangible Assets, such as software licences and website development, as revenue expenditure and therefore there is no asset recognition on the Balance Sheet.

xvi) Inventories

Stocks are recorded in the Balance Sheet and charged to services at actual cost and stores items at average cost. This is not materially different from the recommended practice of carrying them at the lower of cost or net realisable value. Care is taken to write out any obsolescent stocks.

NOTES TO THE ACCOUNTS

xvii) Investment Property

Investment properties are those that are used solely to earn rentals and/or for capital appreciation. The definition is not met if the property is used in any way to facilitate the delivery of services or production of goods or is held for sale.

Investment properties are measured initially at cost and subsequently at fair value, based on the amount at which the asset could be exchanged between knowledgeable parties at arm's-length. Properties are not depreciated but are 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.

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 the Capital Receipts Reserve.

xviii) Leases

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

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

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

The Council as Lessee

Finance Leases

Where the Council leases a material asset under a finance lease it would be recognised in the accounts as if it were the Council's asset and then treated in the same way as any other Property, Plant and Equipment asset, other than depreciation being charged over the lease term if this is shorter than the asset's estimated useful life (where ownership of the asset does not transfer to the Council at the end of the lease period). The Council currently has no such Finance Leases.

Operating Leases

Rentals paid under operating leases are charged to the Comprehensive Income and Expenditure Statement as an expense of the services benefitting from use of the leased property, plant or equipment.

NOTES TO THE ACCOUNTS

The Council as Lessor

Finance Leases

Where the Council grants a finance lease over a property or an item of plant or equipment, the relevant asset is written out of the Balance Sheet as a disposal. The rentals receivable are treated partly as capital receipts (for the principal element) and partly as revenue interest income. If not paid in full the balance due is held as a Long-Term Debtor in the Balance Sheet and is written down when payments are received.

Operating Leases

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 relevant service area in the Comprehensive Income and Expenditure Statement.

xix) Overheads and Support Services

The costs of overheads and support services are charged to those that benefit from the supply or service in accordance with the costing principles of the CIPFA Service Reporting Code of Practice 2019/20 (SeRCOP). 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.

xx) Property, Plant and Equipment

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

Recognition

Expenditure on the acquisition, creation or enhancement of Property, Plant and Equipment is capitalised on an accruals basis, provided that it is probable that the future economic benefits or service potential associated with the item will flow to the Council over a number of years and the cost of the item can be measured reliably. This determination will be made by the Responsible Financial Officer based upon a reasonable and prudent judgement. Leisure and ICT equipment will generally not be capitalised. Expenditure that maintains but does not add to an asset's potential to deliver future economic benefits or service potential (i.e. repairs and maintenance) is charged as an expense when it is incurred.

A de minimis level is set for operational assets below which expenditure is not capitalised.

<u>Category of Property, Plant and Equipment Assets</u>	<u>De minimis level</u>
Council dwellings	£25,000
Other land and buildings	£10,000
Vehicles, plant and equipment	£10,000
Infrastructure assets	£10,000

NOTES TO THE ACCOUNTS

Measurement

Assets are initially measured at cost, comprising:

- the purchase price.
- any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

The Council does not capitalise borrowing costs incurred whilst assets are under construction.

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

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

- Infrastructure, Vehicles, Plant and Equipment, Community Assets and Assets Under Construction – depreciated historical cost.
- Dwellings – fair value, determined using the basis of existing use value for social housing (EUV-SH).
- All other assets – fair value, determined as the amount that would be paid for the asset in its existing use (existing use value – EUV).

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

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

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

Where decreases in value are identified, they are accounted for by:

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

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

NOTES TO THE ACCOUNTS

Impairment

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

Where impairment losses are identified, they are accounted for:

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

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

Depreciation

Depreciation is provided for on all Property, Plant and Equipment assets by the systematic allocation of their depreciable amounts over their useful lives. An exception is made for assets where the useful life is in excess of 50 years or where assets are without a determinable finite useful life (i.e. freehold land and certain Community Assets) and assets that are not yet available for use (i.e. assets under construction).

Depreciation is calculated on the following bases:

- * Non-HRA dwellings and other buildings – straight-line allocation over the useful life of the property as estimated by the valuer.
- * HRA Dwellings – componentisation applied and depreciated according to the average remaining useful life expectancies.
- * vehicles, plant and equipment – a percentage of the value of each class of assets in the Balance Sheet, as advised by a suitably qualified officer.
- * infrastructure – coast protection - straight-line allocation over 20 years.
land drainage and public lighting - straight-line allocation over 40 years.

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

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 applied in the year in which the asset is acquired and is charged using the straight-line method.

NOTES TO THE ACCOUNTS

The Remaining Useful Life of the Council's Non-Current Assets

The Council's Property, Plant and Equipment are depreciated over the remaining useful life of the asset as determined by the Council's valuers. Any land owned by the Council is not deemed to have a finite life and is not depreciated.

Investment assets are not depreciated and have a remaining life of 50 years or more.

The following table indicates the estimated remaining useful life of each type of non-current asset owned by the Council. Each category of asset consists of different assets with varying remaining lives, therefore the table shows the range of asset lives within each category.

Type of Asset	Remaining Useful Asset Life at 31 March 2020
Council Dwellings	Up to 60 years
Council Garages	60 years
Depots	60 years
Public Conveniences	Between 1 and 60 years
Offices	Between 50 and 60 years
Cemeteries	Indefinite
Health and Leisure Centres	60 years
Equipment	Between 0 and 30 years
Coastal Protection Works	Up to 9 years
Land Drainage Works	Up to 25 years
Public Lighting Works	Up to 24 years
Residential Dwellings	An average of 46 years
Investment Properties	50+ years

xxi) Disposals and Non-Current Assets Held for Sale

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

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

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

NOTES TO THE ACCOUNTS

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

Amounts received for a disposal are categorised as capital receipts. For Council Dwellings sold under the Right to Buy Scheme a proportion of the receipts, net of statutory deductions and allowances) are payable to the Government. The balance of receipts is required to be credited to the Capital Receipts Reserve and can then only be used for new capital investment or set aside to reduce the Council's underlying need to borrow (the capital financing requirement). Receipts are appropriated to the Reserve from the General Fund Balance in the Movement in Reserves Statement.

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

xxii) Private Finance Initiative (PFI) and Similar Contracts

The Council has not entered into any PFI schemes or similar contracts.

xxiii) Provisions

Provisions are made where an event has taken place that gives the Council a legal or constructive obligation that probably requires settlement by a transfer of economic benefits or service potential, and a reliable estimate can be made of the amount of the obligation. For instance, the Council may be involved in a court case that could eventually result in the making of a settlement or the payment of compensation.

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

When payments are eventually made, they are charged to the provision carried in the Balance Sheet. Estimated settlements are reviewed at the end of each financial year – 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 authority settles the obligation.

NOTES TO THE ACCOUNTS

xxiv) 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 show against the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement. The reserve is then appropriated back into the General Fund Balance in the Movement in Reserves Statement so that there is no net charge against council tax for the expenditure.

Certain reserves are kept to manage the accounting processes for non-current assets, financial instruments, retirement and employee benefits and do not represent usable resources for the Authority – these reserves are explained in the relevant notes.

xxv) Revenue Expenditure Funded From Capital Under Statute

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

xxvi) Value Added Tax (VAT)

Income and expenditure in the Statement of Accounts excludes any amounts related to VAT other than any irrecoverable VAT which is charged to the service to which the supply related.

NOTES TO THE ACCOUNTS

2. ACCOUNTING STANDARDS THAT HAVE BEEN ISSUED BUT NOT YET ADOPTED

The Code of Practice of Local Authority Accounting in the United Kingdom requires changes in accounting policy to be applied retrospectively unless alternative transitional arrangements are specified. In addition, disclosure is required for 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.

The standards that may be relevant for additional disclosures that will be required in future financial statements in respect of accounting changes that are introduced in the 2020/21 Code are:

Amendments to IAS 28 Investments in Associates and Joint Ventures: Long-term interests in Associates and Joint Ventures

Annual Improvements to IFRS Standards 2015-2017 Cycle

Amendments to IAS 19 Employee Benefits: Plan Amendment, Curtailment or Settlement

CIPFA/LASAAC has deferred until 2021/22 the implementation of IFRS 16 Leases, it was previously expected to be applied from 2020/21. This will require local authorities that are lessees to recognise most leases on their balance sheets as rights of use assets with corresponding lease liabilities.

3. JUDGEMENTS MADE IN APPLYING ACCOUNTING POLICIES

In applying the accounting policies set out in this document the Council has had to make certain judgements about complex transactions or those involving uncertainty about future events.

The critical judgements that have the most significant effect on the amounts in the financial statements are:

Asset reclassifications – the Council has made judgements on whether assets are classified as Investment Property or Property, Plant and Equipment. If the asset is used in the delivery of services or is occupied by third parties who are subsidised by the Council they are deemed to be Property, Plant and Equipment assets. If the asset is being held solely for capital appreciation or rental income, there is no subsidy and/or full market rent is being charged this would indicate that the asset is an Investment Property. The classification determines the valuation method to be used.

Lease classifications – the Council has made judgements on whether its lease arrangements are operating leases or finance leases. These judgements are based on a series of tests designed to assess whether the risks and rewards of ownership have been transferred from the lessor to the lessee. The results of the tests are taken “in the round” and a decision has been made. The accounting treatment for operating and finance leases is significantly different (see accounting policy on Leases) and could have a significant effect on the accounts.

Contractual arrangements – the Council has made judgements on whether its contractual arrangements contain embedded leases (i.e. arrangements that are not legally leases but take the form of payments in return for the use of specific assets).

NOTES TO THE ACCOUNTS

Future funding for local government – there is a high degree of uncertainty about future levels of funding for local government. However, the Council has determined that this uncertainty is not yet sufficient to provide an indication that the assets of the Council might be impaired as a result of a need to close facilities and reduce levels of service provision.

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

Doubtful debts allowances – the Council has made judgements about the level of doubtful debts allowances that it needs to provide for. These judgements are based on historical experience of debtor defaults adjusted for the current economic climate.

4. UNCERTAINTIES RELATING TO ASSUMPTIONS AND ESTIMATES USED

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

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

Item	Uncertainties	Effect if Actual Results Differ from Assumptions/Estimates
Doubtful Debt Allowances	The Council has made allowances for doubtful debts of £2.667 million in 2019/20 (£2.429 million in 2018/19) based on what it believes to be a prudent but realistic level. The allowances are based on: Council Tax and Non-domestic rate payers – ranges from 5% of debts at bill stage to 50% of debts at Liability Order stage. Sundry Debtors including Overpaid Housing Benefits -100% of debts over 1 year. Housing Rents - Former tenants 95%, current tenants various percentages ranging from 0% on debts up to £100 and 95% on debts over £1,000.	If debt collection rates were to deteriorate or improve, a 5% change in the allowances would require an adjustment of £133,000 (£121,000 in 2018/19).

NOTES TO THE ACCOUNTS

Item	Uncertainties	Effect if Actual Results Differ from Assumptions/Estimates
Pensions Liability	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the Council with expert advice about the assumptions to be applied.	The effects on the net pensions' liability of changes in individual assumptions are detailed in Note 43. During 2019/20, the Council's actuaries advised that the net pension liability had increased by £5.770 million due to estimates being corrected, as a result of experience and decreased by £14.278 million due to updating of the assumptions used in the calculations.
Accumulating Absences	The calculated figure is comprised of annual leave entitlement and flexi/lieu time. The carried forward leave on the system has been used to calculate the accrual for annual leave. The number of days taken in flexi leave/lieu time has been used as the base for calculating the accrual at the end of the relevant year.	The accumulated absences amount recorded for 2019/20 is £282,000. A 5% increase in the accrual would amount to £14,000. This would not impact on the usable reserves of the Council.
Business Rates Appeals Provision	The provision of £3.828 million made by the Council is its 40% share of an overall provision of £9.570 million provision made in the Collection Fund. The overall figure is based on a national estimate of 3.6% successful appeals on the gross rateable value, less appeals already settled and adjusted for major appeals that have been notified by the Valuation Office as being in hand and likely to be successful, but not yet settled.	The Council would be impacted by circa 20% of any under or over provision, but any loss would be restricted to a reduction in resources of £2.773 million before Safety Net Grant arrangements apply.

NOTES TO THE ACCOUNTS

Item	Uncertainties	Effect if Actual Results Differ from Assumptions/Estimates
Housing Stock Valuation	The Council adopts the Beacon methodology to annually revalue the Housing stock owned by the Council. The method adopted divides Towns and Parishes across the District into 5 pools, with a single pool being used to inform the Beacon indices each year on a cyclical basis. The pools were revised during 2017/18 to include Towns and Parishes across the District, rather than being too heavily weighted to a specific geographical area. Each year, it is recognised that the Beacon indices may well result in differing valuations when making a comparison against the national house price benchmark.	Over the 5 year period of valuation, the methodology does result in a fair market average valuation being carried in the Council's balance sheet. In any one year however, depending on the pool used to inform the Beacon indices, a variation can occur against the Land Registry house price benchmark. In 2019/20, the NFDC Beacon indices totaled 0.44%, whereas the South East benchmark totaled 0.7%. The resultant difference in these figures equates to circa £950,000.
Britain leaving the European Union: asset values and pension liability	There is a high level of uncertainty about the implications of Britain leaving the European Union. It is not possible to predict with any level of certainty how on-going negotiations with the EU will then impact on the UK economy, including asset valuations and discount rates. The assumption has been made that any outcome will not significantly impair the value of the Council's assets or change the discount rate. However, this assumption needs to be revisited and reviewed regularly.	Higher impairment allowances may need to be charged in the future if asset values fall. If the discount rate changes, the size of the net pension liability will also vary.
COVID-19; asset values	Due to the outbreak of COVID-19 and government restrictions implemented there was an unknown future impact on the real estate market and therefore asset valuations for 2019/20 were originally reported on the basis of 'material valuation uncertainty' as per VPS3 and VPGA10 of RICS Red Book Global. A subsequent review was undertaken in June/July 2020 and it was established that no material change had occurred.	Higher impairment allowances may need to be charged in the future if asset values fall.

NOTES TO THE ACCOUNTS

5. NOTES TO THE EXPENDITURE AND FUNDING ANALYSIS

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

Adjustments for Capital Purposes

- Depreciation, impairment and revaluation gains/losses on Property, Plant and Equipment and Investment Properties.
- Gains/losses on the Disposal of Non-Current Assets.
- Payments to the Government Housing Capital Receipts Pool.
- Capital grants, income and contributions.
- Provision for the financing of Capital Investment.
- Capital expenditure charged against the General Fund and Housing Revenue Account balances.

Net Change for Pensions Adjustments

- Replacement of employer pension contributions allowed by statute with current and past service costs.
- Net interest on the net defined benefit liability/(asset).
- Re-measurement of the defined benefit liability/(asset).

Other Differences

- Amount by which council tax and business rates income credited to the Comprehensive Income and Expenditure Statement is different from the amount calculated for the year in accordance with statutory requirements.
- Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from the amount chargeable in the year in accordance with statutory requirements.

NOTES TO THE ACCOUNTS

Adjustments from the General Fund to arrive at the Comprehensive Income and Expenditure Amounts:

Adjustment between Funding and Accounting Basis				
	Adjustment for Capital Purposes	Net Change for the Pension Adjustments	Other Differences	Total Adjustments
	£000	£000	£000	£000
2019/20:				
Community Affairs	0	148	(1)	147
Environment and Regulatory Services	454	490	(3)	941
Finance, Investment and Corporate Services	432	260	(3)	689
Housing Services	3	200	0	203
Leader and Corporate Affairs	0	2	0	2
Leisure and Wellbeing	1,178	327	(8)	1,497
Economic Development	246	64	1	311
Planning and Infrastructure	0	558	1	559
General Fund	2,313	2,049	(13)	4,349
Housing Revenue Account	8,408	504	14	8,926
Net Cost of Services	10,721	2,553	1	13,275
Other Income and Expenditure from the Expenditure and Funding Analysis	(18,765)	3,825	1,025	(13,915)
Difference between General Fund surplus or deficit and Comprehensive Income and Expenditure Statement Surplus or Deficit on the Provision of Services	(8,044)	6,378	1,026	(640)
2018/19:				
Community Affairs	0	73	4	77
Environment and Regulatory Services	232	237	15	484
Finance, Corporate Services and Improvement	412	2,546	9	2,967
Housing Services	0	88	9	97
Leader and Corporate Affairs	0	1	0	1
Leisure and Wellbeing	(650)	180	15	(455)
Local Economic Development, Property and Innovation	(66)	26	294	254
Planning and Infrastructure	0	250	19	269
General Fund	(72)	3,401	365	3,694
Housing Revenue Account	3,548	797	28	4,373
Net Cost of Services	3,476	4,198	393	8,067
Other Income and Expenditure from the Expenditure and Funding Analysis	(17,346)	(6,130)	176	(23,300)
Difference between General Fund surplus or deficit and Comprehensive Income and Expenditure Statement Surplus or Deficit on the Provision of Services	(13,870)	(1,932)	569	(15,233)

NOTES TO THE ACCOUNTS

Expenditure and Income Analysed by Nature:

2018/19		2019/20
£000	Expenditure	£000
31,567	Employee benefits expenses	31,117
58,257	Other services expenses	56,338
3,050	Support Service recharges	3,359
13,226	Depreciation, amortisation and impairment	20,433
6,870	Interest Payments	6,529
5,738	Precepts and Levies	6,106
574	Payments to Housing Capital Receipts Pool	574
119,282	Total Expenditure	124,456
	Income	
(49,130)	Fees, charges and other service income	(49,851)
(1,231)	Gain on the disposal of assets	(1,365)
(2,088)	Interest and investment income	(1,476)
(17,851)	Income from council tax	(18,660)
(50,766)	Government grants and contributions	(43,866)
(121,066)	Total Income	(115,218)
(1,784)	(Surplus) or Deficit on the Provision of Services	9,238

Segmental Income:

	Government Grant and Other Income	Fees, Charges and Other Service Income	Total
	£000	£000	£000
2019/20:			
Community Affairs	(39)	(523)	(562)
Environment and Regulatory Services	(263)	(3,027)	(3,290)
Finance, Investment and Corporate Services	(32,965)	(1,362)	(34,327)
Housing Services	(1,723)	(2,850)	(4,573)
Leisure and Wellbeing	(149)	(7,104)	(7,253)
Economic Development	0	(614)	(614)
Planning and Infrastructure	(249)	(5,208)	(5,457)
General Fund	(35,388)	(20,688)	(56,076)
Housing Revenue Account	(32)	(27,970)	(28,002)
	(35,420)	(48,658)	(84,078)
2018/19:			
Community Affairs	(22)	(483)	(505)
Environment and Regulatory Services	(447)	(2,881)	(3,328)
Finance, Corporate Services and Improvement	(37,600)	(1,385)	(38,985)
Housing Services	(1,647)	(3,406)	(5,053)
Leisure and Wellbeing	(398)	(6,853)	(7,251)
Local Economic Development, Property and Innovation	0	(392)	(392)
Planning and Infrastructure	(268)	(5,288)	(5,556)
General Fund	(40,382)	(20,688)	(61,070)
Housing Revenue Account	0	(27,641)	(27,641)
	(40,382)	(48,329)	(88,711)

NOTES TO THE ACCOUNTS

6. MATERIAL ITEMS OF INCOME AND EXPENDITURE

The Total Comprehensive Income and Expenditure Statement has a net expenditure position of £7.322 million in 2019/20, a movement of £21.876 million from the £14.554 million net income position in 2018/19. The main reasons for the variation, most of which do not impact on usable resources, are as follows:

	2018/19 £000	2019/20 £000	Variation £000
Depreciation and Revaluation/Impairment of Non Current Assets	5,099	12,141	7,042
Capital Grants and Contributions	(5,289)	(3,695)	1,594
Revenue Expenditure Funded from Capital	1,611	1,290	(321)
Payments to the Housing Pooled Capital Receipts	574	574	0
(Gains)/Losses on Non Current Asset Disposals	(1,231)	(1,365)	(134)
Movements in value of Investment Properties	(486)	232	718
Changes in Fair Value of Investments	(108)	1,392	1,500
Pension Fund Actuarial (Gains)/Losses	(8,540)	1,661	10,201
Other IAS19 Pension Adjustments	6,608	4,717	(1,891)
(Surplus)/Deficit arising from the revaluation of Reserve)	(4,230)	(3,577)	653
Other Items	89	(12)	(101)
Items Not Affecting Council Tax / Housing Rents	(5,903)	13,358	19,261
Equipment Purchases	1,632	832	(800)
Dwellings Depreciation	8,127	8,321	194
Non-Ringfenced Government Grants	(6,698)	(6,040)	658
Interest Payable and Similar Charges	4,451	4,365	(86)
Investment Income	(1,192)	(1,339)	(147)
Other Items	(14,971)	(12,175)	2,796
Items Affecting Council Tax / Housing Rents	(8,651)	(6,036)	2,615
Total Comprehensive Income and Expenditure	(14,554)	7,322	21,876

7. EVENTS AFTER THE REPORTING PERIOD

The COVID-19 pandemic and the government's lockdown measures from late March 2020 have had a significant impact on the council's operations. This impact has been immaterial for 19/20 due to the lockdown occurring late in the year. However, the impact has been material following year end. The Council have updated their 20/21 budget and MTFP in response to the pandemic. During lockdown, it was necessary to close outlying information offices and staff offices have been partially closed with the majority of the council's office-based staff working from home.

Council asset values were originally reported on the basis of 'material valuation uncertainty' as per VPS3 and VPGA10 of RICS Valuation – Global Standards due to the unknown future impact on the real estate market as a result of COVID-19 and government restrictions implemented. Due to this uncertainty the valuation of Council assets has been kept under frequent review during the end of year process.

NOTES TO THE ACCOUNTS

As government restrictions have been eased since the end of the reporting period the impact on the real estate market is beginning to show. A change in asset values has not been evident immediately, as is common in the property market. However, there is still a level of uncertainty over how properties will be used in the future with social distancing requirements.

Restrictions placed on moving house/premises were lifted in May 2020 resulting in many transactions, that were put on hold, continuing on the same terms as previously agreed before 31 March 2020. In some areas there has been a slight increase in asking prices for dwellings, but the prices achieved in terms of agreed sales are broadly in line with the values achieved in March 2020.

Income streams such as those from car parks initially saw a downturn during April and May 2020 and whilst not all incomes have returned to previous levels, it has been agreed that the valuation should assume they will return to 2019/20 levels by the end of the financial year; therefore there has been no material effect on the overall capital value.

A number of rent deferments have been agreed for leased properties, however these are not suspensions and the rents are still legally due to be paid. In accordance with Central Government guidance the Council (as a landlord) has been working with interested parties to agree rent repayment plans which enables both the debt to be repaid and the businesses to re-start/continue trading.

The retail, hospitality and leisure sectors, have started to experience a number of insolvency proceedings, which could reduce the level of Business Rates income collected by the Council. There are predictions that trading difficulties will increase as businesses have problems sustaining cash flow. However Central Government interventions may reduce this trend.

The Council's valuer undertook a review in June/July 2020 and concluded that there have been no material changes in asset values at 31 March 2020.

8. ADJUSTMENTS BETWEEN ACCOUNTING BASIS AND FUNDING BASIS UNDER REGULATIONS

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

NOTES TO THE ACCOUNTS

2019/20	Usable Reserves						Movement in Unusable Reserves
	General Fund Balance	Housing Revenue Account	Capital Receipts Reserve	Major Repairs Reserve	Community Infrastructure Levy	Developers' Contributions Unapplied	
	£000	£000	£000	£000	£000	£000	£000
Adjustments primarily involving the Capital Adjustment Account:							
Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement:							
Charges for depreciation and impairment of non-current assets	(1,659)	(3)	0	(8,321)	0	0	9,983
Revaluation Gains / (Losses) on Property, Plant and Equipment	(1,125)	3,498	0	0	0	0	(2,373)
Capital Expenditure not enhancing value	(946)	(11,906)	0	0	0	0	12,852
Movements in the market value of Investment Properties	(232)	0	0	0	0	0	232
Expected Credit Loss on Investments	1	0	0	0	0	0	(1)
Movement in the Fair Value of Investments	(1,392)	0	0	0	0	0	1,392
Capital grants and contributions applied	1,393	248	0	0	0	0	(1,641)
Revenue expenditure funded from capital under statute	(1,290)	0	0	0	0	0	1,290
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	(1)	(1,803)	0	0	0	0	1,804
Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:							
Provision for the financing of capital investment	1,222	4,100	0	0	0	0	(5,322)
Capital expenditure charged against the General Fund and HRA balances	2,239	6,085	0	0	0	0	(8,324)
Adjustments primarily involving the Capital Grants / Developers' Contributions Unapplied Account:							
Capital grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement	1,919	0	0	0	(1,118)	(801)	0
Application of grants to capital financing transferred to the Capital Adjustment Account	0	0	0	0	0	80	(80)

NOTES TO THE ACCOUNTS

2019/20	Usable Reserves						Movement in Unusable Reserves
	General Fund Balance	Housing Revenue Account	Capital Receipts Reserve	Major Repairs Reserve	Community Infrastructure Levy	Developers' Contributions Unapplied	
	£000	£000	£000	£000	£000	£000	£000
Adjustments primarily involving the Capital Receipts Reserve:							
Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement (net of administration costs of disposal)	46	3,123	(3,169)	0	0	0	0
Transfer of cash proceeds from non PPE assets	94	38	(132)	0	0	0	0
Use of the Capital Receipts Reserve to finance new capital expenditure	0	0	3,910	0	0	0	(3,910)
Contribution from the Capital Receipts Reserve to finance the payments to the Government capital receipts pool	(574)	0	574	0	0	0	0
Adjustments primarily involving the Deferred Capital Receipts Reserve:							
Transfer of deferred sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	0	2	0	0	0	0	(2)
Adjustments primarily involving the Major Repairs Reserve:							
Use of the Major Repairs Reserve to finance new capital expenditure	0	0	0	8,321	0	0	(8,321)
Adjustments primarily involving the Pension Reserve:							
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement	(8,731)	(1,881)	0	0	0	0	10,612
Employer's pensions contributions and direct payments to pensioners payable in the year	4,923	972	0	0	0	0	(5,895)

NOTES TO THE ACCOUNTS

2019/20	Usable Reserves						Movement in Unusable Reserves
	General Fund Balance	Housing Revenue Account	Capital Receipts Reserve	Major Repairs Reserve	Community Infrastructure Levy	Developers' Contributions Unapplied	
	£000	£000	£000	£000	£000	£000	£000
Adjustments primarily involving the Collection Fund Adjustment Account:							
Amount by which council tax and business rates income credited to the Comprehensive Income and Expenditure Statement is different from income calculated for the year in accordance with statutory requirements	353	0	0	0	0	0	(353)
Adjustments primarily involving the Accumulating Absences Adjustment Account:							
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	13	(2)	0	0	0	0	(11)
Total Adjustments	(3,747)	2,471	1,183	0	(1,118)	(721)	1,932

NOTES TO THE ACCOUNTS

2018/19 Comparative Figures	Usable Reserves						Movement in Unusable Reserves
	General Fund Balance	Housing Revenue Account	Capital Receipts Reserve	Major Repairs Reserve	Community Infrastructure Levy	Developers' Contributions Unapplied	
	£000	£000	£000	£000	£000	£000	£000
Adjustments primarily involving the Capital Adjustment Account:							
Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement:							
Charges for depreciation and impairment of non-current assets	(1,705)	(3)	0	(8,127)	0	0	9,835
Revaluation Gains / (Losses) on Property, Plant and Equipment	998	7,010	0	0	0	0	(8,008)
Capital Expenditure not enhancing value	(840)	(10,558)	0	0	0	0	11,398
Movements in the market value of Investment Properties	486	0	0	0	0	0	(486)
Expected Credit Loss on Investments	(9)	0	0	0	0	0	9
Movement in the Fair Value of Investments	108	0	0	0	0	0	(108)
Capital grants and contributions applied	1,664	600	0	0	0	0	(2,264)
Revenue expenditure funded from capital under statute	(1,612)	0	0	0	0	0	1,612
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	(2,495)	(1,473)	0	0	0	0	3,968
Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:							
Provision for the financing of capital investment	1,203	1,538	0	0	0	0	(2,741)
Capital expenditure charged against the General Fund and HRA balances	894	6,357	0	0	0	0	(7,251)
Adjustments primarily involving the Capital Grants / Developers' Contributions Unapplied Account:							
Capital grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement	2,465	394	0	0	(1,898)	(961)	0
Application of grants to capital financing transferred to the Capital Adjustment Account	0	0	0	0	81	524	(605)

NOTES TO THE ACCOUNTS

2018/19 Comparative Figures	Usable Reserves						Movement in Unusable Reserves
	General Fund Balance	Housing Revenue Account	Capital Receipts Reserve	Major Repairs Reserve	Community Infrastructure Levy	Developers' Contributions Unapplied	
	£000	£000	£000	£000	£000	£000	£000
Adjustments primarily involving the Capital Receipts Reserve:							
Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement (net of administration costs of disposal)	2,582	2,618	(5,200)	0	0	0	0
Transfer of cash proceeds from non PPE assets	89	0	(89)	0	0	0	0
Use of the Capital Receipts Reserve to finance new capital expenditure	0	0	4,829	0	0	0	(4,829)
Contribution from the Capital Receipts Reserve to finance the payments to the Government capital receipts pool	(574)	0	574	0	0	0	0
Adjustments primarily involving the Deferred Capital Receipts Reserve:							
Transfer of deferred sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	0	2	0	0	0	0	(2)
Adjustments primarily involving the Major Repairs Reserve:							
Use of the Major Repairs Reserve to finance new capital expenditure	0	0	0	5,565	0	0	(5,565)
Use of the Major Repairs Reserve to finance debt repayment	0	0	0	2,562	0	0	(2,562)
Adjustments primarily involving the Pension Reserve:							
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement	(9,767)	(1,985)	0	0	0	0	11,752
Employer's pensions contributions and direct payments to pensioners payable in the year	4,378	766	0	0	0	0	(5,144)

NOTES TO THE ACCOUNTS

2018/19 Comparative Figures	Usable Reserves						Movement in Unusable Reserves
	General Fund Balance	Housing Revenue Account	Capital Receipts Reserve	Major Repairs Reserve	Community Infrastructure Levy	Developers' Contributions Unapplied	
	£000	£000	£000	£000	£000	£000	£000
Adjustments primarily involving the Collection Fund Adjustment Account:							
Amount by which council tax and business rates income credited to the Comprehensive Income and Expenditure Statement is different from income calculated for the year in accordance with statutory requirements	(578)	0	0	0	0	0	578
Adjustments primarily involving the Accumulating Absences Adjustment Account:							
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	(74)	(16)	0	0	0	0	90
Total Adjustments	(2,787)	5,250	114	0	(1,817)	(437)	(323)

NOTES TO THE ACCOUNTS

9. EARMARKED RESERVES

This note sets out the amounts set aside from the General Fund and HRA balances to provide financing for future expenditure plans and the amounts posted back from earmarked reserves to meet General Fund and HRA expenditure in 2018/19 and 2019/20.

	Balance 1 April 2018	Transfers Out 2018/19	Transfers In 2018/19	Balance 31 March 2019	Transfers Out 2019/20	Transfers In 2019/20	Balance 31 March 2020
	£000	£000	£000	£000	£000	£000	£000
Building Control Surplus	0	0	(3)	(3)	0	(41)	(44)
Business Rates Equalisation	(113)	0	(1,441)	(1,554)	0	(221)	(1,775)
Committed Schemes	(834)	834	(1,045)	(1,045)	1,045	(469)	(469)
Community Housing Fund	(965)	29	0	(936)	16	0	(920)
Historic Buildings	(7)	0	0	(7)	0	0	(7)
Housing Needs Survey	(96)	0	(12)	(108)	0	0	(108)
Leisure Development	0	0	0	0	0	(834)	(834)
Local Development Framework	(233)	101	(75)	(207)	178	0	(29)
Lymington Synthetic Turf Pitch	(151)	0	(17)	(168)	0	(19)	(187)
Open Space Maintenance	(53)	3	(70)	(120)	56	(19)	(83)
Private Housing Stock Condition Survey	(104)	0	(13)	(117)	29	0	(88)
Quadrennial Election	(130)	0	(44)	(174)	174	0	0
General Fund	(2,686)	967	(2,720)	(4,439)	1,498	(1,603)	(4,544)
HRA ICT	(366)	0	0	(366)	0	(44)	(410)
Housing Acquisitions and Development	(22,791)	2,507	(69)	(20,353)	5,993	0	(14,360)
Total Reserves	(25,843)	3,474	(2,789)	(25,158)	7,491	(1,647)	(19,314)

10. CAPITAL PROGRAMME RESERVE

This note sets out the amounts set aside from the General Fund to provide for financing of future years' capital expenditure.

	Balance 1 April 2018	Transfers Out 2018/19	Transfers In 2018/19	Balance 31 March 2019	Transfers Out 2019/20	Transfers In 2019/20	Balance 31 March 2020
	£000	£000	£000	£000	£000	£000	£000
Capital Programme	(12,409)	1,838	(1,844)	(12,415)	2,506	(388)	(10,297)
	(12,409)	1,838	(1,844)	(12,415)	2,506	(388)	(10,297)

NOTES TO THE ACCOUNTS

11. PROPERTY, PLANT AND EQUIPMENT ASSETS AND IMPAIRMENTS

Valuation of Property, Plant and Equipment

The Council operates a rolling programme of property revaluations, which are carried out over a 5-year period. In 2019/20 this work was carried out by the Council's valuer, S. Yeo, MRICS. The revaluation programme for 2019/20 principally comprised the majority of the Council's non-operational land and buildings, as well as 20% of dwellings using the Beacon method of valuation. The remainder of dwellings' values were uplifted in line with the resultant Beacon indices.

a) Analysis of Assets

The following list gives an indication of the range and number of assets owned/leased by the Council.

2018/19		2019/20
5,054	Council Dwellings	5,120
2	Main Office Blocks	2
2	Other Offices	2
5	Depots and Administrative Buildings	5
5	Health and Leisure Centres	5
50	Car Parks	50
8	Cemeteries	9
24	Public Conveniences	24
207	Vehicles	201
1,800	Garages	1,788

b) Valuation of Property, Plant and Equipment Assets carried at current value

The following statement shows the progress of the Council's rolling programme for the revaluation of non-current assets. The basis for valuation is set out in the Statement of Accounting Policies.

	Council Dwellings	Other Land and Buildings	Vehicles, Plant and Equipment	Infra- structure	Community Assets	Assets Under Construction	Total
	£000	£000	£000	£000	£000	£000	£000
Carried at Historic Cost (Net of Depreciation)			3,236	3,386		4,312	10,934
Valued at Fair Value as at:							
2019/20	375,573	41,345			537		417,455
2018/19		2,485					2,485
2017/18		5,111					5,111
2016/17		17,354					17,354
2015/16		2,211					2,211
Total Cost or Valuation	375,573	68,506	3,236	3,386	537	4,312	455,550

These valuations show the net current value after depreciation is applied.

NOTES TO THE ACCOUNTS

c) Movement on Property, Plant and Equipment Assets

Purchases and disposals during the year were as follows:

Movements in 2019/20:	Council Dwellings	Other Land and Buildings	Vehicles, Plant and Equipment	Infrastructure	Community Assets	Assets Under Construction	Total Property, Plant and Equipment
Cost or Valuation	£000	£000	£000	£000	£000	£000	£000
At 1 April 2019	370,038	70,066	10,336	19,839	0	6,673	476,952
Additions	13,927	1,311	631	183	74	3,802	19,928
Revaluation increases / (decreases) recognised in the Revaluation Reserve	3,481	(156)	0	0	251	0	3,576
Revaluation increases / (decreases) recognised in the Surplus / Deficit on the Provision of Services	(219)	(1,139)	0	0	0	(4,603)	(5,961)
Capital Expenditure not enhancing value recognised in the Surplus / Deficit on the Provision of Services	(11,884)	(539)	0	(183)	0	0	(12,606)
Derecognition - disposals	(1,803)	0	(338)	0	0	0	(2,141)
Other movements in cost or valuation	2,033	(685)	0	0	212	(1,560)	0
At 31 March 2020	375,573	68,858	10,629	19,839	537	4,312	479,748
Accumulated Depreciation and Impairment							
At 1 April 2019	0	(275)	(6,484)	(16,127)	0	0	(22,886)
Depreciation charge	(8,321)	(90)	(1,246)	(326)	0	0	(9,983)
Depreciation written out to the Surplus / Deficit on the Provision of Services	8,321	13	0	0	0	0	8,334
Derecognition - disposals	0	0	337	0	0	0	337
At 31 March 2020	0	(352)	(7,393)	(16,453)	0	0	(24,198)
Net Book Value							
at 31 March 2020	375,573	68,506	3,236	3,386	537	4,312	455,550
at 31 March 2019	370,038	69,791	3,852	3,712	0	6,673	454,066

NOTES TO THE ACCOUNTS

Comparative Movements in 2018/19:	Council Dwellings	Other Land and Buildings	Vehicles, Plant and Equipment	Infrastructure	Assets Under Construction	Total Property, Plant and Equipment
Cost or Valuation	£000	£000	£000	£000	£000	£000
At 1 April 2018	366,652	66,938	10,274	19,839	3,046	466,749
Additions	12,690	1,878	757	135	4,198	19,658
Revaluation increases / (decreases) recognised in the Revaluation Reserve	2,858	1,372	0	0	0	4,230
Revaluation increases / (decreases) recognised in the Surplus / Deficit on the Provision of Services	(332)	997	0	0	(784)	(119)
Capital Expenditure not enhancing value recognised in the Surplus / Deficit on the Provision of Services	(10,558)	(705)	0	(135)	0	(11,398)
Derecognition - disposals	(1,473)	0	(695)	0	0	(2,168)
Other movements in cost or valuation	201	(414)	0	0	213	0
At 31 March 2019	370,038	70,066	10,336	19,839	6,673	476,952
Accumulated Depreciation and Impairment						
At 1 April 2018	0	(183)	(5,895)	(15,792)	0	(21,870)
Depreciation charge	(8,127)	(92)	(1,282)	(335)	0	(9,836)
Depreciation written out to the Surplus / Deficit on the Provision of Services	8,127	0	0	0	0	8,127
Derecognition - disposals	0	0	693	0	0	693
At 31 March 2019	0	(275)	(6,484)	(16,127)	0	(22,886)
Net Book Value						
at 31 March 2019	370,038	69,791	3,852	3,712	6,673	454,066
at 31 March 2018	366,652	66,755	4,378	4,047	3,046	444,878

NOTES TO THE ACCOUNTS

d) Impairments

Valuation reductions of Property, Plant and Equipment Assets in 2019/20 were £6.936 million (Council Dwellings £4.906 million and General Fund Assets £2.030 million), but valuation increases were £12.654 million (Council Dwellings £11.702 million, Other HRA Properties £126,000, Council Garages £184,000 and other General Fund Assets £642,000)

Offsetting the net valuation increases was non-enhancing capital expenditure of £11.906 million on Council Dwellings, and £946,000 on General Fund Assets, which was impaired via the Comprehensive Income and Expenditure Statement in the year.

Net valuation reductions of Investment Properties in 2019/20 were £232,000.

e) Capital Expenditure Contract Commitments

As at 31 March 2020, the Council was committed through contracts to future capital expenditure in respect of the following major schemes:

	Period of investment	£000
Environment and Regulatory Services		
National Coastal Monitoring Programme	2020/21	260
Public Conveniences	2020/21	7
Total		267

NOTES TO THE ACCOUNTS

12. INVESTMENT PROPERTIES

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

2018/19		2019/20
£000		£000
(318)	Rental income from investment property	(379)
16	Direct operating expenses arising from investment property	38
(486)	Net (gains)/losses from fair value adjustments	232
(788)	Net (gain)/loss	(109)

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

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

2018/19		2019/20
£000		£000
4,695	Balance at start of the year	5,181
	Additions:	
0	Purchases	4,534
0	Capital expenditure not enhancing value	(29)
486	Net gains/(losses) from fair value adjustments	(232)
5,181	Balance at end of the year	9,454

13. INTANGIBLE ASSETS

The authority accounts for its software as intangible assets, to the extent that the software is not an integral part of a particular IT system and accounted for as part of the hardware item of property, plant and equipment.

2018/19		2019/20
£000		£000
0	Opening Balance	0
0	Additions	217
0	Capital Expenditure not enhancing value	(217)
0	Closing Balance	0

NOTES TO THE ACCOUNTS

14. LONG-TERM INVESTMENTS

The Council is permitted to invest and lend a proportion of its funds for more than 364 days. At 31 March 2020 the Council had 18 loans which had a remaining maturity term of more than one year.

2018/19		2019/20
£000		£000
21,180	Opening Balance	28,786
12,503	Purchases	227
216	Revaluations Gains	33
(85)	Revaluations Losses	(1,397)
(10)	Repayments	(8)
(3)	Expected Credit Loss	0
(5,015)	Transfers to Short-Term Investments	(9,005)
28,786	Closing Balance	18,636

15. LONG-TERM DEBTORS

Long-term debtors includes deferred capital receipts for house purchases, loans to local trusts/organisations and staff car/cycle loans. During 2013/14 a long-term loan of £2.007 million was made to Lymington Harbour Commissioners. Of this £802,800 was outstanding as at 31 March 2020, but £200,700 is due within 12 months and is therefore included within short-term debtors.

31 March 2019		31 March 2020
£000		£000
14	Car Loans	8
803	Lymington Harbour Commissioners - Principal	602
551	Rent to Mortgages House Purchases	553
0	Appletree Property Holdings	304
1,368	Total	1,467

NOTES TO THE ACCOUNTS

16. SHORT-TERM INVESTMENTS

Short-term investments include all deposits with a term of less than one year other than Cash and Cash Equivalents.

2018/19		2019/20
£000		£000
36,731	Opening Balance	28,808
51,723	Purchases	55,210
11	Revaluations Gains	6
(11)	Revaluations Losses	(41)
37	Movement in Accrued Interest	(17)
(64,693)	Repayments	(72,913)
(5)	Expected Credit Loss	4
5,015	Transfers from Long-Term Investments	9,005
28,808	Closing Balance	20,062

17. INVENTORIES

Inventories are goods that are acquired in advance of their use in the provision of services or their resale. They are charged to the Comprehensive Income and Expenditure Statement in the year that they are consumed or sold.

2018/19		2019/20
£000		£000
340	Balance at 1 April	338
1,682	Purchases	1,599
(1,652)	Recognised as an expense in the year	(1,628)
(32)	Written off balances	(24)
338	Balance at 31 March	285

NOTES TO THE ACCOUNTS

18. SHORT-TERM DEBTORS

An analysis of the Council's debtors and payments in advance as at 31 March is shown below:

31 March 2019		31 March 2020
£000		£000
907	Central Government Bodies (a)	1,664
	Local Authorities:	
542	Hampshire County Council	510
37	Police and Crime Commissioner for Hampshire	17
24	New Forest National Park Authority	15
129	Other Local Authorities	6
0	NHS Bodies	81
75	Public Corporations and Trading Funds	90
	Other Entities and Individuals:	
426	Council Tax Payers	480
304	Business Rate Payers	356
682	Housing Tenants' Rents (b)	942
7,384	Other Debtors and Payments in Advance	7,501
10,510	Total	11,662

Short-term debtors were higher at the 31 March 2020 by £1.152 million when compared to 31 March 2019, the main contributing factors to this were:

- (a) Central Government Bodies debtors increased by £757,000. As at 31 March 2020 £482,000 was accrued re the Department of Works and Pensions and £438,000 re HM Revenue and Customs VAT.
- (b) Housing Tenants' Rents payments in advance have increased by £260,000.

The bad debts provision is shown below:

31 March 2019		31 March 2020
£000		£000
(171)	Council Tax Payers	(189)
(112)	Business Rate Payers	(123)
(523)	Housing Tenants' Rents	(660)
(1,623)	Other Debtors	(1,695)
(2,429)	Total	(2,667)

NOTES TO THE ACCOUNTS

19. CASH AND CASH EQUIVALENTS

The balance of Cash and Cash Equivalents is made up of the following elements:

31 March 2019		31 March 2020
£000		£000
10	Cash held by the Council	8
(967)	Bank current accounts	206
6,831	Short-Term deposits with building societies/banks and other financial institutions	18,339
5,874	Total	18,553

20. SHORT-TERM BORROWING

Short-term borrowing refers to loans that are repayable over a period of less than 12 months.

The Council has no short-term loans, but its long-term loans are repayable by equal instalments of principal. In 2012/13 the Council borrowed £142.7 million for the Housing Revenue Account financing settlement. The first £4.1 million principal repayment instalment of this borrowing was paid in 2017/18. The annual HRA settlement repayment of £4.1 million together with the next instalment for the Lymington Harbour Commissioners' loan of £200,700 is transferred each year from long term to short term borrowing as the total of £4.301 million is payable within 12 months.

In addition, total accrued interest of £47,240 on short-term and long-term borrowing is also payable within 12 months and is included in this category.

2018/19		2019/20
£000		£000
(4,350)	Balance at 1 April	(4,349)
4301	Loans Repaid	4,301
(4,301)	Transferred from Long-Term Borrowing	(4,301)
1	Movement in accrued interest on all Borrowing	1
(4,349)	Balance at 31 March	(4,348)

NOTES TO THE ACCOUNTS

21. SHORT-TERM CREDITORS

An analysis of the Council's creditors and receipts in advance as at 31 March is shown below:

31 March 2019		31 March 2020
£000		£000
(6,271)	Central Government Bodies (a)	(12,281)
	Local Authorities:	
(2,333)	Hampshire County Council	(2,307)
(170)	Police and Crime Commissioner for Hampshire	(177)
(170)	Hampshire Fire and Rescue Authority	(166)
(2)	New Forest National Park Authority	(4)
(568)	Developers' Contributions Open Space Maintenance	(609)
(760)	Other Local Authorities (b)	(2,422)
(2)	NHS Bodies	(3)
(20)	Public Corporations and Trading Funds	(7)
	Other Entities:	
(279)	Council Tax Payers	(294)
(373)	Business Rate Payers (c)	(178)
(7,161)	Other Creditors and Receipts in Advance (d)	(5,607)
(18,109)	Total	(24,055)

Short term creditors have increased by £5.946 million from 2018/19 to 2019/20:

- (a) The Central Government Bodies balance is £6.010 million higher mainly due to £3.419 million with regard to grants received in advance from the Ministry for Housing, Communities and Local Government and £2.329 million re National Non Domestic Rates.
- (b) Other Local Authorities is higher following receipts in advance for the regional coastal monitoring programme of £1.570 million.
- (c) Business Rate Payers receipts in advance have fallen by £195,000 in comparison to the end of 2018/19.
- (d) Other Creditors and Receipts in Advance have decreased by £1.554 million. This was due in the main to movement on accruals regarding Coastal Monitoring of £137,000, Information Communications and Technology of £117,000, Smarter Working of £119,000, Health and Leisure Centres £173,000 and Health; Leisure Centres Direct Debits decreasing by £366,000 and Sundry Creditors outstanding invoice payments by £638,000.

NOTES TO THE ACCOUNTS

22. DEVELOPERS' CONTRIBUTIONS – SHORT-TERM RECEIPTS IN ADVANCE

The Council has received Developers' Contributions that have yet to be recognised as income as they have conditions attached to them that will, if not met, require the monies to be returned to the contributor.

2018/19		2019/20
£000		£000
(127)	Balance at 1 April	(62)
118	Financing of Capital Expenditure	10
(53)	Transfer to/(from) other Developers' Contribution Categories	52
(62)	Balance at 31 March	0

23. LONG-TERM BORROWING

Long-term borrowing refers to loans that are repayable over a period in excess of 12 months.

At 1 April 2019 the Council was holding long-term debt of £131.207 million. This included the sum borrowed in 2012/13 relating to the refinancing of the Housing Revenue Account as well as a loan raised in March 2014 to finance an equivalent loan made in 2013/14 to the Lymington Harbour Commissioners. At 31 March 2020 £200,700 relating to the Harbour Commissioners' loan was repayable within 12 months, as well as the annual repayment of £4.1 million of the loan taken regarding the Housing Revenue Account financing settlement, therefore a balance of long-term debt of £126.906 million was outstanding at the year end.

2018/19		2019/20
£000		£000
(135,507)	Balance at 1 April	(131,207)
4,300	Transferred to Short-Term Borrowing	4,301
(131,207)	Balance at 31 March	(126,906)

NOTES TO THE ACCOUNTS

24. PROVISIONS

The Council maintains provisions to cover liabilities or losses that are anticipated to arise, but which cannot be quantified with certainty.

	Balance 1 April 2018	Additional Provisions Made 2018/19	Amounts Used 2018/19	Unused Amounts Reversed 2018/19	Balance 31 March 2019	Additional Provisions Made 2019/20	Amounts Used 2019/20	Unused Amounts Reversed 2019/20	Balance 31 March 2020
	£000	£000	£000	£000	£000	£000	£000	£000	£000
Business Rates	(3,366)	(1,356)	732	0	(3,990)	(936)	1,098	0	(3,828)
Legislation Changes	(17)	0	0	17	0	0	0	0	0
Private Sector Leasing Dilapidations	(102)	0	0	0	(102)	0	52	0	(50)
Redundancy	(123)	(174)	119	4	(174)	0	178	(4)	0
Total Provisions	(3,608)	(1,530)	851	21	(4,266)	(936)	1,328	(4)	(3,878)

Business Rates

On 1 April 2013 the Government introduced the Business Rates Retention Scheme, which required the Council to make a provision in the Collection Fund for successful appeals against rating valuations. The total provision made at 31 March 2020 was £9.570 million, of which £3.828 million relates to this Council's share of anticipated refunds.

Legislation Changes

The ability to fully recover the cost of providing property search information was subject to challenge nationally, as a consequence of conflicting legislation. This legal claim and related costs have been fully settled.

Private Sector Leasing Dilapidations

The Council is responsible for ensuring the repair of private sector houses that are leased. The Council had possible obligations on 130 properties at 31 March 2020. A revenue budget of £92,000 exists in 2020/21 for void repairs and dilapidation costs but a provision of £50,000 is also held to cover the potential for additional costs should a large number of dilapidations occur in any particular year.

Redundancy

The Redundancy provision is put in place once approval for the termination of employment has been agreed by the Council.

NOTES TO THE ACCOUNTS

25. CAPITAL GRANTS – RECEIPTS IN ADVANCE

The Council has received capital grants and contributions that have yet to be recognised as income as they have conditions attached to them that will, if not met, require the monies to be returned to the contributor. The balances and movements on contributions were as follows:

2018/19				2019/20		
Government Grants	Other Grants/Contributions	Total		Government Grants	Other Grants/Contributions	Total
£000	£000	£000		£000	£000	£000
(95)	(38)	(133)	Balance at 1 April	(168)	0	(168)
(2,093)	(4)	(2,097)	New Receipts	(1,963)	(42)	(2,005)
2,020	42	2,062	Financing of Capital Expenditure	1,587	42	1,629
(168)	0	(168)	Balance at 31 March	(544)	0	(544)

26. DEVELOPERS' CONTRIBUTIONS – LONG -TERM RECEIPTS IN ADVANCE

The Council has received Developers' Contributions that have yet to be recognised as income, as they have conditions attached to them that will, if not met, require the monies to be returned to the contributor.

2018/19		2019/20
£000		£000
(788)	Balance at 1 April	(751)
(100)	New Receipts	0
84	Financing of Capital Expenditure	2
53	Transfer to/(from) other Developers' Contribution Categories	124
(751)	Balance at 31 March	(625)

27. CAPITAL RECEIPTS RESERVE

The Capital Receipts Reserve principally reflects the proceeds from the disposal of Property, Plant and Equipment assets that have yet to be utilised on new capital expenditure.

2018/19		2019/20
£000		£000
(5,915)	Balance at 1 April	(5,801)
(5,289)	New Receipts (including interest)	(3,301)
574	Transfers to Government	574
4,829	Financing of Capital Expenditure	3,910
(5,801)	Balance at 31 March	(4,618)

NOTES TO THE ACCOUNTS

28. DEVELOPERS' CONTRIBUTIONS / COMMUNITY INFRASTRUCTURE LEVY UNAPPLIED

The Developers' Contributions (DCs) and Community Infrastructure Levy (CIL) Unapplied accounts reflect contributions which have no conditions attached to them and have therefore been credited to the Reserves via the Comprehensive Income and Expenditure Account.

2018/19			2019/20	
CIL	DCs		CIL	DCs
£000	£000		£000	£000
(2,277)	(3,089)	Balance at 1 April	(4,094)	(3,526)
(2,350)	(1,077)	New Receipts	(1,437)	(812)
0	0	Transfers to/(from) other Developers' Contribution Categories	0	(176)
81	524	Financing of Capital Expenditure	0	80
130	116	Financing of Revenue Expenditure	75	187
322	0	Payments to Town and Parish Councils	244	0
(4,094)	(3,526)	Balance at 31 March	(5,212)	(4,247)

29. REVALUATION RESERVE

This Reserve records the increase in the valuation of assets since 1 April 2007, under the system of capital accounting.

The Reserve is written down by any accumulated revaluation surplus of non-current assets as they are disposed of and debited or credited with deficits or surpluses arising on the year's revaluations.

2018/19				2019/20		
General Fund	Housing Revenue Account	Total		General Fund	Housing Revenue Account	Total
£000	£000	£000		£000	£000	£000
(20,750)	(15,349)	(36,099)	Balance at 1 April	(20,072)	(18,255)	(38,327)
(1,294)	(3,062)	(4,356)	Upward revaluation of assets	(445)	(3,691)	(4,136)
126	0	126	Downward revaluation of assets and impairment losses not charged to Surplus/Deficit on the Provision of Services	477	83	560
(1,168)	(3,062)	(4,230)	Surplus or deficit on revaluation of non-current assets not posted to the Surplus or Deficit on the Provision of Services	32	(3,608)	(3,576)
(75)	75	0	Movement of property	0	0	0
1,921	81	2,002	Accumulated gains on assets sold or scrapped	0	39	39
(20,072)	(18,255)	(38,327)	Balance at 31 March	(20,040)	(21,824)	(41,864)

NOTES TO THE ACCOUNTS

30. CAPITAL ADJUSTMENT ACCOUNT

The Capital Adjustment Account absorbs the timing differences arising from the different arrangements for the consumption of non-current assets and for financing their acquisition or enhancement under statutory provisions. The account is debited with the costs of depreciation, impairment and amortisations as assets are consumed and credited with the amounts set aside by the Council for the financing of capital expenditure.

The account contains accumulated gains and losses on Investment Properties and gains on Property, Plant and Equipment assets arising before 1 April 2007.

The balance on the Capital Adjustment Account is matched by non-current assets within the Balance Sheet and does not represent actual funds available to the Council.

2018/19			2019/20	
£000	£000		£000	£000
	(269,967)	Balance at 1 April		(279,466)
		Reversal of items relating to capital expenditure or credited to the Comprehensive Income and Expenditure Statement:		
9,835		Charges for depreciation and impairment of non-current assets	9,983	
(8,008)		Revaluation (Gains) / Losses on Property, Plant and Equip.	(2,373)	
11,398		Capital Expenditure not enhancing value	12,852	
1,612		Revenue expenditure funded from capital under statute	1,290	
1,968		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	1,764	
	16,805	Net written out amount of the cost on non-current assets consumed in the year		23,516
		Capital financing applied in the year:		
(4,829)		Use of the Capital Receipts Reserve to finance new capital expenditure	(3,910)	
(5,565)		Use of the Major Repairs Reserve to finance new capital expenditure	(8,321)	
(2,562)		Use of the Major Repairs Reserve to finance debt repayment	0	
(2,264)		Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	(1,641)	
(605)		Application of grants / contributions to capital financing from the Capital Grant / Developers' Contributions Unapplied Accounts	(80)	
(1,203)		Provision for the financing of capital investment charged against the General Fund balance	(1,222)	
(1,538)		Provision for the financing of capital investment charged against the HRA balance	(4,100)	
(7,252)		Capital expenditure charged against the General Fund and HRA balances	(8,323)	
	(25,818)	Movements in the market value of Investment Properties debited or credited to the Comprehensive Income and Expenditure Statement		(27,597)
	(486)			232
	(279,466)	Balance at 31 March		(283,315)

NOTES TO THE ACCOUNTS

31. FINANCIAL INSTRUMENTS 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.

2018/19			2019/20	
Available for Sale Financial Instruments	Financial Instruments Revaluation		Available for Sale Financial Instruments	Financial Instruments Revaluation
£000	£000		£000	
(73)	0	Balance at 1 April	0	(172)
70	(70)	Reclasification re IFRS 9	0	0
3	0	Remeasurement re re IFRS 9	0	0
0	(197)	Upward revaluation of investments	0	(27)
0	86	Downward revaluation of investments	0	1,419
0	9	Expected credit loss on investments	0	(1)
73	(172)	(Surplus) or deficit on revaluation of investments	0	1,391
0	(172)	Balance at 31 March	0	1,219

32. DEFERRED CAPITAL RECEIPTS RESERVE

The Deferred Capital Receipts Reserve represents the amount of capital receipts owed to the Council that have not yet been received. 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 takes place, amounts are transferred to the Capital Receipts Reserve.

2018/19		2019/20
£000		£000
(554)	Balance at 1 April	(555)
(1)	New Receipts/Revaluations	(3)
(555)	Balance at 31 March	(558)

NOTES TO THE ACCOUNTS

33. PENSIONS RESERVE

The Pensions Reserve absorbs the timing differences arising from the different arrangements for accounting for post-employment benefits and for funding benefits in accordance with statutory provisions. The debit balance on the Pensions Reserve therefore shows a shortfall in the benefits earned by past and current employees and the resources the Council has set aside to meet them. The statutory arrangements will ensure that funding will have been set aside by the time the benefits come to be paid. Full details of the Pension Scheme are set out in Note 43.

2018/19 £000		2019/20 £000
95,024	Balance at 1 April	93,092
(8,540)	Remeasurement of the net defined liability / (asset)	1,661
11,752	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	10,612
(5,144)	Employer's pensions contributions and direct payments to pensioners payable in the year	(5,895)
93,092	Balance at 31 March	99,470

34. COLLECTION FUND ADJUSTMENT ACCOUNT

The Collection Fund is a statutory fund in which the Council records transactions for council tax and business rates. The fund balance is allocated as follows:

31 March 2019				31 March 2020		
Business Rates	Council Tax	Total		Business Rates	Council Tax	Total
£000	£000	£000		£000	£000	£000
(194)	0	(194)	Central Government	(621)	0	(621)
(35)	(1,030)	(1,065)	Hampshire County Council	(112)	(1,075)	(1,187)
0	(152)	(152)	Police and Crime Commissioner for Hampshire	0	(175)	(175)
(4)	(56)	(60)	Hampshire Fire and Rescue Authority	(12)	(59)	(71)
(233)	(1,238)	(1,471)		(745)	(1,309)	(2,054)
(154)	(214)	(368)	New Forest District Council	(497)	(226)	(723)
(387)	(1,452)	(1,839)		(1,242)	(1,535)	(2,777)

The balances on each fund will be taken into account when calculating the council tax and business rates in future years. A £1.485 million surplus was taken into account in setting the 2020/21 Council Tax Levels (£1.494 million surplus for 2019/20), and a £2.229 million surplus for Business Rate Levels (£0.415 million surplus for 2019/20).

NOTES TO THE ACCOUNTS

35. CASH FLOW STATEMENT – OPERATING ACTIVITIES

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

2018/19 £000		2019/20 £000
(9,835)	Charges for depreciation and impairment	(9,983)
8,008	Revaluation Gains/(Losses) on Property, Plant and Equipment	2,373
1	Revaluation/Movement in Deferred Debtors	10
122	Revaluation Gains/(Losses) on Investments	(1,397)
(11,398)	Capital Expenditure not enhancing value	(12,852)
486	Movements in the value of Investment Properties	(232)
3,687	Capital grants applied to the financing of Capital Expenditure	2,407
(3,968)	Carrying amount of Non-Current Assets sold	(1,804)
(2)	Increase/(Decrease) in Inventories	(53)
(726)	Increase/(Decrease) in Debtors	1,152
37	Increase/(Decrease) in Investments Accrued Interest	(17)
18	(Increase)/Decrease in impairment for Provision for Bad Debts	(238)
(586)	(Increase)/Decrease in Creditors	(4,043)
(922)	Adjustment to Creditors re Capital Expenditure	148
(6,608)	Movement in Pension Liability	(4,717)
(658)	Other non-cash items charged to the net surplus or deficit on the provision of services	388
(22,344)	Adjustment to Net Surplus or Deficit on the Provision of Services for Non-Cash Movements	(28,858)

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

2018/19 £000		2019/20 £000
5,200	Proceeds adjustment from the sale of property, plant and equipment and investment property	3,169
5,200	Net cash flows from operating activities	3,169

The cash flows for operating activities include the following items:

2018/19 £000		2019/20 £000
(1,100)	Investment interest received	(1,377)
4,439	Loan interest paid	4,352
3,339	Net cash flows from operating activities	2,975

NOTES TO THE ACCOUNTS

36. CASH FLOW STATEMENT - INVESTING ACTIVITIES

2018/19		2019/20
£000		£000
20,582	Purchase of property, plant and equipment, investment property and intangible assets	24,530
64,227	Purchase of short-term and long-term investments	55,437
15	Other payments for investing activities	304
(5,199)	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	(3,169)
(64,703)	Proceeds from short-term and long-term investments	(72,921)
(3,898)	Other receipts from investing activities	(2,446)
11,024	Net cash flows from investing activities	1,735

37. CASH FLOW STATEMENT - FINANCING ACTIVITIES

2018/19		2019/20
£000		£000
0	Other receipts from financing activities	(2,264)
4,301	Repayments of short- and long-term borrowing	4,301
2,281	Other payments for financing activities	0
6,582	Net cash flows from financing activities	2,037

38. ACCUMULATING ABSENCES ADJUSTMENT ACCOUNT

This account represents the reversal of the accrual for compensated absences. The accrual is required under the Code but under regulations is not allowed to count as expenditure against the General Fund or Housing Revenue Account.

2018/19			2019/20	
£000	£000		£000	£000
	204	Balance at 1 April		293
(204)		Settlement or cancellation of accrual made at the end of the preceding year	(293)	
<u>293</u>		Amounts accrued at the end of the current year	<u>282</u>	
	89	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		(11)
	293	Balance at 31 March		282

NOTES TO THE ACCOUNTS

39. AGENCY SERVICES

These figures include net expenditure on services that the Council provides on an agency basis for highways and on-street parking enforcement.

2018/19		2019/20		
Net Expenditure £000		Gross Expenditure £000	Income £000	Net Expenditure £000
	Hampshire County Council			
(11)	- Highways	452	(515)	(63)
49	- On-Street Parking	282	(94)	188
38	Agency Expenditure	734	(609)	125

40. CONTINGENT ASSETS

The Council is unaware of any Contingent Assets as at the Balance Sheet date.

41. CONTINGENT LIABILITIES

In April 2012 the Dibden Golf Course staff transferred to Mytime Active, who gained admitted body status to the Hampshire County Council Government Pension Scheme. New Forest District Council is the sponsoring body, acting as guarantor for any contributions to the Pension Fund should they not be paid by Mytime Active. As at 31 March 2020 no such guarantee has been exercised.

42. CAPITAL EXPENDITURE AND CAPITAL FINANCING

Capital expenditure is paid for (financed) in various ways including borrowing, the use of internal resources, the receipt of grant and directly from revenue income. Capital expenditure on behalf of other authorities is recharged directly to them.

The Capital Financing Requirement shows the overall indebtedness of the Council. This debt need not be external loans that have been raised, but it can be internal funds that the Council has used temporarily instead of raising debt. The expectation is that borrowing may be required in the future.

Where applicable the Council is required to set aside a revenue provision for the redemption of debt and for a future borrowing requirement if external debt has not actually been raised.

The Council has a choice in the method of calculating the provision and has chosen the one that represents the depreciation calculation of those assets financed by the debt. Therefore, when the value of the asset financed by debt has been fully depreciated the amount of the revenue provision that has been set aside will be sufficient to repay the loan for that asset.

NOTES TO THE ACCOUNTS

New vehicles, plant and equipment, above a de minimis level of £10,000, are funded by a future borrowing requirement. In order to make a provision to repay this future requirement a revenue provision is made. This sum was £1.137 million in 2019/20 and was charged to the General Fund together with £85,000 in relation to investment property acquisitions. In addition, £4.1 million for the next principal repayment was made regarding the Housing Revenue Account Self-Financing Settlement.

This table sets out the transactions required for the financing of capital expenditure and permitted adjustments for each year.

	2018/19		2019/20	
	£000	£000	£000	£000
Opening Capital Financing Requirement		146,000		141,454
Capital Investment				
Property, Plant and Equipment Assets	19,660		24,461	
Long-Term Investments	0		227	
Intangible Assets	0		217	
REFCUS	1,611	21,271	1,290	26,195
Sources of Finance				
Capital Receipts	(4,829)		(3,910)	
Government Grants	(2,062)		(1,629)	
Revenue Contributions	(7,252)		(8,322)	
Major Repairs Reserve	(5,565)		(8,321)	
Developers' Contributions	(806)	(20,514)	(93)	(22,275)
Other Adjustments for the Repayment of Debt				
Repayment of Loan Principal		(4,100)		(4,100)
Revenue Provision		(1,203)		(1,222)
Closing Capital Financing Requirement		141,454		140,052
Explanation of movements in Year			2018/19	2019/20
			£000	£000
Increase in underlying need to borrow (unsupported by Government financial assistance)			757	3,920
Reduction (-)/increase in need to borrow because of:				
- Repayment of Loan Principal			(4,100)	(4,100)
- Revenue Provision			(1,203)	(1,222)
			(4,546)	(1,402)

43. DEFINED BENEFIT PENSION SCHEME

a) Participation in Pension Scheme

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

The Council participates in the Hampshire County Council Pension Scheme. This is a funded scheme, meaning that the Council and employees pay contributions into a fund, calculated at a level intended to balance the pension liabilities with the investment assets.

NOTES TO THE ACCOUNTS

b) Transactions Relating to Post-employment (Retirement) Benefits

The Council recognises the cost of retirement benefits in the Net Cost of Services when employees earn them, rather than when the benefits are eventually paid out as pensions. However, the charge required to be made against the General Fund is based on the cash payable in the year, so the real cost of retirement benefits is reversed out of the Comprehensive Income and Expenditure Account via the Movement in Reserves Statement. The following transactions have been made during the year:

	2018/19	2019/20
	£ million	£ million
Comprehensive Income and Expenditure Statement		
Cost of Services		
Service cost comprising:		
Current service cost	6.189	8.156
Past service cost	3.152	0.292
Financing and Investment Income and Expenditure		
Net Interest expense	2.410	2.164
Total Post Employment Benefits Charged to the Surplus or Deficit on the Provision of Services	11.751	10.612
Other Post Employment Benefits Charged to the Comprehensive Income and Expenditure Statement		
Remeasurement of the net defined benefit liability comprising:		
Return on plan assets (excluding the amount included in the net interest expense)	(11.920)	10.169
Actuarial (Gains) / Losses arising on changes in demographic assumptions	(11.360)	(6.872)
Actuarial (Gains) / Losses arising on changes in financial assumptions	14.290	(7.406)
Actuarial (Gains) / Losses due to liability experience	0.450	5.770
Total Net Defined Benefit Liability Re-measured	(8.540)	1.661
Total Post Employment Benefits Charged to the Comprehensive Income and Expenditure Statement	3.211	12.273
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	1.933	(6.378)
Actual amount charged against the General Fund		
Balance for pensions in the year		
Employer's contributions payable to scheme	5.144	5.895

NOTES TO THE ACCOUNTS

c) Pensions 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 as follows:

Assets and Liabilities	31 March 2019	31 March 2020
	£ million	£ million
Present value of the defined benefit obligation	(276.162)	(276.663)
Fair value of plan assets	183.070	177.193
Net liability arising from defined benefit obligation	(93.092)	(99.470)

The liabilities show the underlying commitments that the Council has in the long-run to pay post employment retirement benefits. The total net liability of £99.470 million has a substantial impact on the net worth of the Council as recorded in the Balance Sheet. However, statutory arrangements for funding the deficit mean that the financial position of the Council remains healthy, as the deficit on the scheme will be made good by increased contributions over the remaining working life of employees, as assessed by the scheme actuary.

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

	2018/19	2019/20
	£ million	£ million
Opening balance at 1 April	(263.614)	(276.162)
Current Service Cost	(6.190)	(8.156)
Past Service Cost	(3.148)	(0.292)
Interest Cost	(6.770)	(6.556)
Contributions from scheme Participants	(1.270)	(1.397)
Remeasurement (Gains) and Losses:		
Actuarial Gains/(Losses) arising from changes in financial assumptions	(14.290)	7.406
Actuarial Gains/(Losses) due to liability experience	(0.450)	(5.770)
Actuarial Gains/(Losses) arising from changes in demographic assumptions	11.360	6.872
Benefits Paid	8.210	7.392
Closing balance at 31 March	(276.162)	(276.663)

NOTES TO THE ACCOUNTS

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

	2018/19	2019/20
	£ million	£ million
Opening fair value of scheme assets at 1 April	168.590	183.070
Interest Income	4.360	4.392
Remeasurement gain/(loss):		
The return on plan assets, excluding the amount included in the net interest expense	11.920	(10.169)
Contributions from employer	5.140	5.895
Contributions from employees into the scheme	1.270	1.397
Benefits paid	(8.210)	(7.392)
Closing fair value of scheme assets at 31 March	183.070	177.193

d) Local Government Pension Scheme assets (fair value) comprised

31 March 2019		Assets	31 March 2020	
£ million	%		£ million	%
4.21	2.3	Cash and Cash Equivalents	3.54	2.0
110.57	60.4	Equity Investments	93.38	52.7
41.56	22.7	Government Bonds	38.63	21.8
9.52	5.2	Corporate Bonds	0.00	0.0
13.91	7.6	Property	12.93	7.3
3.30	1.8	Other Assets	28.71	16.2
183.07	100.0	Total Assets	177.19	100.0

e) Basis for Estimating Assets and Liabilities

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

The main assumptions used in their calculations have been:

Financial Assumptions	31 March 2019	31 March 2020
	%	%
Rate of inflation - RPI	3.3	n/a
- CPI	2.2	2.0
Rate of increase in salaries	3.7	3.0
Rate of increase in pensions	2.1	2.0
Rate of increase in deferred pensions	2.1	n/a
Rate of discounting scheme liabilities	2.4	2.3

NOTES TO THE ACCOUNTS

Mortality Assumptions	31 March 2019	31 March 2020
	Years	Years
Pensioner member aged 65 at accounting date		
Males	23.3	23.0
Females	26.1	25.5
Active member aged 45 at accounting date		
Males	24.9	24.7
Females	27.8	27.2

The estimation of the defined benefit obligations is sensitive to the actuarial assumptions set out in the table above. The sensitivity analysis below has 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 assumptions remain constant. The assumptions in longevity, for example, assume that life expectancy increases or decreases for men and women. In practice, this is unlikely to occur, and 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. The methods and types of assumptions used in preparing the sensitivity analysis below did not change from those used in the previous period.

Impact on the Defined Benefit Obligation in the scheme	Increase in Assumption	Decrease in Assumption
	£ million	£ million
Longevity (increase or decrease in 1 year)	8.54	(8.47)
Rate of inflation (increase or decrease by 0.1%)	5.10	(4.99)
Rate of increase in salaries (increase or decrease by 0.1%)	0.47	(0.47)
Rate of increase in pensions (increase or decrease by 0.1%)	5.10	(4.99)
Rate for discounting scheme liabilities (increase or decrease by 0.1%)	(5.44)	5.56

f) Impact on the Authority's Cash Flows

The objectives of the scheme are to keep employers' contributions at as constant a rate as possible. The County Council has agreed a strategy with the scheme's actuary to achieve a funding level of 100% over the next 20 years. Funding levels are monitored on an annual basis. The latest triennial valuation was completed on 31 March 2019.

The Council anticipates paying standard contributions of £4.052 million to the fund for the accounting period ending 31 March 2020. In addition, estimated Strain on Fund contributions will be £392,000.

The weighted average duration of the defined benefit obligation for scheme members is 20.3 years (18.4 years 2018/19).

Further information on the Pension Fund can be obtained from:

Pensions Services
Hampshire County Council
The Castle
Winchester
SO23 8UB Telephone: (01962) 845588

NOTES TO THE ACCOUNTS

44. EXTERNAL AUDIT COSTS

The following fees payable relating to external audit and inspection were incurred:

2018/19		2019/20
£000		£000
43	External audit services carried out by the appointed auditor	43
12	Certification of grant claims and returns	12
55		55

45. GRANTS INCOME

Details of income credited to the Comprehensive Income and Expenditure Statement are as follows:

2018/19		2019/20
£000		£000
	Service Specific Revenue Grants and Contributions (included in cost of services)	
	Ministry of Housing, Communities and Local Government	
(148)	Council Tax Benefits Admin	(141)
0	Covid-19	(70)
(1,110)	Disabled Facilities Grants	(1,170)
(62)	Family Annex Grant	(72)
(475)	Flexible Homelessness Support	(364)
0	Furlough Scheme	(59)
(56)	New Burdens Homelessness Reduction Act	(55)
(277)	NNDR Collection	(276)
0	Rough Sleepers	(100)
(100)	Other MHCLG	(103)
	Department for Work and Pensions	
(375)	Housing and Council Tax Benefit Administration	(334)
(36,300)	Housing Benefit Subsidy	(31,637)
(279)	Discretionary Housing Payments	(264)
(136)	Other DWP	(127)
	Other Government Grants	
(22)	Individual Electoral Registration	(21)
(87)	Apprenticeship Levy	(49)
(39,427)	Total Government Grants	(34,842)
	Other Grants and Contributions	
(366)	Project Integra - Recycling	(229)
(537)	Developers' Contributions	(299)
(4)	Disabled Facilities Grants	(25)
(111)	Other	(72)
(1,018)	Total Other Grants and Contributions	(625)
(40,445)	Total Service Revenue Grants and Contributions	(35,467)

NOTES TO THE ACCOUNTS

2018/19		2019/20
£000	Non-Ringfenced Revenue Government Grants	£000
	Non Domestic Rates Income and Expenditure	
22,965	Tariff	23,952
(23,849)	Retention Scheme Income	(22,766)
(1,788)	Surplus Business Rates Distributed from Pool	(2,625)
(3,231)	S31 Grant	(4,075)
(5,903)		(5,514)
	Ministry of Housing, Communities and Local Government	
(92)	Revenue Support Grant	0
(695)	New Homes Grant	(526)
(8)	Transparency Code Grant	0
(795)		(526)
(6,698)	Total Non-Ringfenced Revenue Government Grants	(6,040)
	Capital Grants and Contributions	
(137)	Coast Protection	(157)
(181)	Eling Tide Mill	(14)
(600)	Housing Acquisitions and Development	(240)
0	Milford Promenade	(2)
0	Public Sector Disabled Facilities Grants	(8)
0	Lymington Quay	(8)
(30)	Lymington Town Hall	(5)
(829)	Developers' Contributions	(721)
(1,817)	Community Infrastructure Levy	(1,118)
(92)	Capital Receipts	(134)
(3,686)	Total Capital Grants and Contributions	(2,407)
(50,829)	Total Grants and Contributions Income	(43,914)

NOTES TO THE ACCOUNTS

46. LEASES

Finance Leases with the Council acting as Lessee

In 2019/20 there were no rental payments to lessors for Finance Leases.

Operating Leases with the Council acting as Lessee

The Council has acquired 20 properties by entering into operating leases. The assets are not owned by the Council and no asset is recorded in the Council's accounts.

Future minimum lease payments due under the non-cancellable leases in future years are:

Lease Rental Payments for:	31 March 2019	31 March 2020
	£000	£000
Not later than one year	106	144
Later than one year but not later than 5 years	358	370
Later than 5 years	623	534
Total Lease Rentals	1,087	1,048

Expenditure of £106,292 was charged to the Comprehensive Income and Expenditure Statement during the year (£107,030 in 2018/19).

Operating Leases with the Council acting as Lessor

The Council leases out property and equipment under operating leases for the provision of community services and economic development.

The future minimum lease payments receivable under the material leases in future years are:

Lease Rental Payments for:	31 March 2019	31 March 2020
	£000	£000
Not later than one year	765	906
Later than one year but not later than 5 years	2,913	3,236
Later than 5 years	28,923	28,353
Total Lease Rentals	32,601	32,495

The portion of the lease rental for Hythe Marina that is based on a profit share basis has not been included in this table. As the profit cannot be accurately projected over the 999 year term of the lease any estimate will be inaccurate and therefore has been omitted. The income for 2019/20 was £139,695 (2018/19 £164,400).

There are 12 leases that are not included in this table, that have little value or contain an immediate break clause.

NOTES TO THE ACCOUNTS

47. MEMBERS' ALLOWANCES

During 2019/20, payments to Members of the Council amounted to £553,009. For 2018/19 the equivalent amount was £514,973.

48. SIGNIFICANT INTEREST

The Council has opted to take up its full member rights of three board members, out of seven, at the New Forest Enterprise Centre. This is classified as significant interest, but financial consolidation with the Council's accounts has not been applied, as the relationship does not meet the criteria of a Joint Venture, Associate or Subsidiary, nor is the turnover material.

49. NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS

The Financial Liabilities and Financial Assets disclosed in the Balance Sheet are analysed across the following categories:

Financial Liabilities

The financial liabilities held by the Council during the year were long-term loans from the Public Works Loan Board and are measured at amortised cost.

FINANCIAL LIABILITIES	Long-Term		Short-Term	
	31 March 2019	31 March 2020	31 March 2019	31 March 2020
	£000	£000	£000	£000
Loans at amortised cost:				
PWLB principal sum borrowed	131,207	126,906	4,301	4,301
Accrued Interest	0	0	48	47
Total Borrowing	131,207	126,906	4,349	4,348
Liabilities at amortised cost:				
Trade Creditors	0	0	6,460	4,783
Total Financial Liabilities	131,207	126,906	10,809	9,131

NOTES TO THE ACCOUNTS

Financial Assets

The financial assets held by the Council during the year are held under the following classifications:

Amortised cost (where cash flows are solely payments of principal and interest and the Council's business model is to collect those cash flows) comprising:

- Cash
- Bank current and notice accounts
- Fixed term deposits with banks and building societies
- Loans to other Local Authorities
- Loans to Housing Associations
- Certificates of deposit and covered bonds issued by banks and building societies

Fair value through profit and loss (all other financial assets) comprising:

- Managed money market funds
- Pooled equity and property funds
- Appletree Property Holdings

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

FINANCIAL ASSETS	Long-Term		Short-Term	
	31 March 2019	31 March 2020	31 March 2019	31 March 2020
	£000	£000	£000	£000
At amortised cost:				
Principal	15,054	6,045	26,714	18,006
Accrued Interest	0	0	104	86
Credit Loss Allowance	(3)	(1)	(6)	(4)
At fair value through profit & loss:				
Fair value	13,735	12,592	1,996	1,974
Total Investments	28,786	18,636	28,808	20,062
At amortised cost				
Cash	0	0	(957)	214
Cash equivalents	0	0	0	3,070
Accrued interest	0	0	1	2
Loss Allowance	0	0	0	(3)
At fair value through profit & loss:				
Fair value	0	0	6,830	15,270
Total Cash and Cash Equivalents	0	0	5,874	18,553
Loans and receivables:				
Trade Debtors	0	0	4,825	5,090
Total Financial Assets	28,786	18,636	39,507	43,705

Accrued interest is already accounted for in the Comprehensive Income and Expenditure Account.

NOTES TO THE ACCOUNTS

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

	2018/19			2019/20			Total
	Financial Liabilities Amortised Cost	Financial Assets Amortised Cost	Fair Value through Profit and Loss	Financial Liabilities Amortised Cost	Financial Assets Amortised Cost	Fair Value through Profit and Loss	
	£000	£000	£000	£000	£000	£000	£000
Interest Expense	4,477	0	0	4,477	4,350	0	4,350
Losses from change in fair value	0	0	86	86	0	0	1,398
Impairment losses	0	18		18	0	4	0
Interest payable and similar charges	4,477	18	86	4,581	4,350	4	1,398
Interest Income	0	(469)	0	(469)	0	(510)	0
Dividend Income	0	0	(681)	(681)	0	0	(778)
Gains from changes in fair value	0	0	(197)	(197)	0	0	(27)
Impairment loss reversals	0	(9)	0	(9)	0	(6)	0
Interest and Investment Income	0	(478)	(878)	(1,356)	0	(516)	(805)
Net Impact on surplus/deficit on provision of services	4,477	(460)	(792)	3,225	4,350	(512)	593
Impact on Other Comprehensive Income and Expenditure	0	0	0	0	0	0	0
Net (Gain)/Loss for the year	4,477	(460)	(792)	3,225	4,350	(512)	593

Financial Instruments Key Risks

The Council complies with CIPFA's Code of Practice on Treasury Management and Prudential Code for Capital Finance in Local Authorities, both revised in December 2017.

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

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

NOTES TO THE ACCOUNTS

The main risks covered are:

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

While the Council maintains responsibility for the Treasury Strategy a contract is held with the Hampshire County Council Treasury Team to administer the day-to-day Treasury function on behalf of the Council.

Credit Risk - Investments

The Council manages credit risk by ensuring that treasury investments are only placed with organisations of high credit quality as set out in the Treasury Management Strategy. These include commercial entities with a minimum long-term credit rating of A-, the UK government and other local authorities. Recognising that credit ratings are imperfect predictors of default, the Council has regard to other measures including credit default swap and equity prices when selecting commercial organisations for investment.

A limit of £12 million of the total portfolio is placed on the amount of money that can be invested with a single counterparty (other than the UK Government). For unsecured investments in banks, building societies and companies, a smaller limit of £6 million applies. The Council also sets limits on investments in certain sectors. No more than £40 million in total can be invested for a longer period than one year. These limits were set and implemented for 2019/20 on 25 February 2019 and were updated in February 2020.

The credit quality of £7.035 million of the Council's investments is enhanced by collateral held in the form of covered bonds collateralised by residential mortgages. The collateral significantly reduces the likelihood of the Council suffering a credit loss on these investments.

The tables below summarise the credit risk exposures, including accrued interest, of the Council's investment portfolio by credit rating and remaining time to maturity.

Counterparty	Balance invested as at 31 March 2020					
	Call Accounts	Up to 1 month	> 1 month and < 6 months	> 6 months and < 12 months	> 12 months	Total
	£000	£000	£000	£000	£000	£000
Banks	3,069	0	1,011	0	0	4,080
Money Market Funds	15,270	0	0	0	0	15,270
Local Authorities/Housing Associations	0	3,515	2,007	7,519	3,032	16,073
Bonds	0	0	4,004	0	3,045	7,049
Pooled Funds	1,974	0	0	0	12,385	14,359
Appletree Property Holdings					206	206
Total	20,313	3,515	7,022	7,519	18,668	57,037

NOTES TO THE ACCOUNTS

Bond Ratings	Long-term		Short-term	
	31 March 2019	31 March 2020	31 March 2019	31 March 2020
	£000	£000	£000	£000
AAA	7,052	3,044	5,712	4,004
AA-	0	0	2,004	3,069
A+	4,000	0	0	4,011
A	0	0	7,006	1,000
A-	0	0	1,000	0
AAA Money Market Funds	0	0	6,830	15,270
Unrated local authorities	4,045	3,000	11,045	9,073
Total	15,097	6,044	33,597	36,427
Credit Rate Not Applicable	13,735	12,592	1,996	1,974
Total Investments	28,832	18,636	35,593	38,401

Credit risk is not applicable to share holdings and pooled funds when the Council has no contractual right to receive any sum of money.

Loss allowances on treasury investments have been calculated by reference to historic default data published by credit rating agencies, multiplied by 365% (2019 150%) to adjust for current and forecast economic conditions. A two-year delay in cash flows is assumed to arise in the event of default. Investments are determined to have suffered a significant increase in credit risk where they have been downgraded by three or more credit rating notches or equivalent since initial recognition, unless they retain an investment grade credit rating. They are determined to be credit-impaired when awarded a "D" credit rating or equivalent.

At 31 March 2020, £8,000 (2019: £9,000) of loss allowances related to treasury investments.

The following analysis summarises the Council's maximum exposure to credit risk on other financial assets (Trade Debtors), based on experience of default, adjusted to reflect current market conditions. The Council also receives income and holds debts from Council Tax, Business Rates and for Housing Benefit overpayments. However, these are statutory debts and whilst the Council endeavours to collect this income, it cannot choose who its counterparties are in relation to these debts. Such statutory debts are not classified as financial instruments, and for this reason no reference to statutory debts is contained within the following tables.

Bond Ratings	Amount at 31 March 2020	Historical experience of default	Market Conditions at 31 March 2020	Estimated maximum exposure to default
	£000	%	%	£000
Trade Debtors	5,090	0.80%	1.72%	87
Total	5,090			87

No breaches of the Council's counterparty criteria occurred during the reporting period and the Council does not expect any losses from non-performance by any counterparties in relation to deposits.

NOTES TO THE ACCOUNTS

Trade Debtors

The Council does not generally allow credit for its trade debtors. The amount that is past its due date can be analysed by age as follows:

	31 March 2019	31 March 2020
	£000	£000
Less than three months	2,319	2,288
Three months to one year	1,651	1,394
More than one year	855	1,408
Total	4,825	5,090

The Council initiates a legal charge on property where tenants have amounts due on a Council mortgage used for the purchase of their Council dwelling. The total collateral at 31 March 2020 was £4,161.

Sundry Debtors bad debt provisions are based upon service areas for invoices that are still unpaid one year after they fall due, then adjusted for known changes and experience. Housing Rents bad debt provisions are based on percentages of the value of arrears for current and former tenants.

Liquidity Risk

The Council manages its liquidity position through the risk management procedures above (the setting and approval of prudential indicators and the approval of the treasury and investment strategy reports), also through cash flow management procedures required by the CIPFA Code of Practice. This seeks to ensure that cash is available when needed.

In the event of an unexpected cash requirement the Council has ready access to borrowings from the money markets to cover any day-to-day cash flow need, and the PWLB and money markets for access to longer-term funds. The Council is also required to provide a balanced budget through the Local Government Finance Act 1992, which ensures sufficient monies are raised to cover annual expenditure. There is therefore no significant risk that it will be unable to raise finance to meet its commitments.

The maturity analysis of financial assets excluding accrued interest and sums due from customers is as follows:

	31 March 2019	31 March 2020
	£000	£000
Less than one year	35,535	38,313
Between one and two years	15,051	3,000
Between two and three years	0	2,041
Between three and four years	0	1,003
No fixed maturity date	13,735	12,592
Total	64,321	56,949

All trade and other payables (£5.090 million) are due to be paid in less than one year and are not shown in the table above.

NOTES TO THE ACCOUNTS

Refinancing and Maturity Risk

The Council maintains a significant debt and investment portfolio. Whilst the cash flow procedures above are considered against the refinancing risk procedures, longer-term risk to the Council relates to managing the exposure to replacing financial instruments as they mature. This risk relates to both the maturing of longer-term financial liabilities and longer-term financial assets.

The Council has ready access to borrowing at favourable rates from the Public Works Loan Board and other local authorities, and at higher rates from banks and building societies. There is no perceived risk that the Council will be unable to raise finance to meet its commitments. It is however exposed to the risk that it may need to refinance a significant proportion of its borrowing at a time of unfavourably high interest rates. This risk is managed by maintaining a spread of fixed rate loans, limiting the amount of the Council's borrowing that matures in any one financial year.

The maturity analysis of financial liabilities is as follows, with the maximum and minimum limits for fixed interest rates maturing in each period as approved by Council in the Treasury Management Strategy:

	Approved maximum limits 2019/20		Actual 31 March 2019		Actual 31 March 2020	
	£m	%	£m	%	£m	%
Less than one year	50	25	4.3	3	4.3	3
Between one and two years	51	25	4.3	3	4.3	3
Between two and five years	50	25	12.9	10	12.7	10
Between five and ten years	51	25	20.5	15	20.5	15
Between ten and twenty years	202	100	41.0	30	41.0	31
Between twenty and thirty years	202	100	41.0	30	41.0	31
Over thirty but not over forty years	202	100	11.5	9	7.4	7
Total			135.5	100	131.2	100

The minimum limits have been set at zero and the maximum limit for more than 10 years at 100%. This is to facilitate the premature repayment and replacement of all PWLB loans with a longer maturity profile should this be required. The 25% maximum limit on the other periods of less than 10 years is to ensure an even maturity profile of short and medium term borrowing.

Market Risk

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

- Borrowings at variable rates – the interest charged to the Comprehensive Income and Expenditure Statement will rise.
- Borrowings at fixed rates – the fair value of the liabilities borrowing will fall
- Investments at variable rates – the interest income credited to the Comprehensive Income and Expenditure Statement will rise; and
- Investments at fixed rates – the fair value of the assets will fall

NOTES TO THE ACCOUNTS

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

The Treasury Management Strategy aims to mitigate these risks by setting upper limits on its net exposures to fixed and variable interest rates. At 31 March 2020, all the £131.207 million of principal borrowed was at fixed rates.

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

	2018/19	2019/20
	£000	£000
Increase in interest receivable on variable rate investments	(406)	(408)
Decrease in fair value of investments held at FVPL	61	60
Impact on Surplus or Deficit on the Provision of Services	(345)	(348)
Decrease in fair value of investments held at FVOCI	0	0
Impact on Comprehensive Income and Expenditure Account	(345)	(348)
Decrease in fair value of loans and investments at amortised cost*	200	119
Decrease in fair value of fixed rate borrowing*	(18,227)	(17,851)

* No impact on Comprehensive Income and Expenditure

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

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

The Council's investments in pooled property funds are subject to the risk of falling commercial property prices. This risk is limited by the Council's investment strategy. A 5% fall in commercial property prices at 31 March 2020 would result in a £0.37 million (2019: £0.39 million) charge to the Surplus or Deficit on the Provision of Services which is then transferred to the Financial Instruments Revaluation Reserve.

The Council's investments in pooled equity funds are subject to the risk of falling share prices. This risk is limited by the Council's investment strategy. A 5% fall in share prices at 31 March 2020 would result in a £0.15 million (2019: £0.20 million) charge to the Surplus or Deficit on the Provision of Services which is then transferred to the Financial Instruments Revaluation Reserve.

Foreign Exchange Risk – The Council has no financial assets or liabilities denominated in foreign currencies. It therefore has no exposure to loss arising from movements in exchange rates.

NOTES TO THE ACCOUNTS

Guarantor Risk – The Council acts as a guarantor to a loan held by the New Forest Enterprise Centre Ltd at Rushington. The current estimated guarantee is £406,000 and has 1 year remaining on the initial 30-year guarantee. The Enterprise Centre’s financial position is currently healthy, no payment has been made to date under the guarantee and the value of the building more than offsets the current loan liability. The Council therefore considers the guarantee risk to be very low and has made no charge against its Comprehensive Income and Expenditure Account.

Fair value of Assets and Liabilities carried at Amortised Cost

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

Financial instruments classified at amortised cost are carried in the Balance Sheet at amortised cost. Their fair values have been estimated by calculating the net present value of the remaining contractual cash flows at 31 March 2020, using the following methods and assumptions:

- Loans from the PWLB have been valued by discounting the contractual cash flows over the whole life of the instrument at the appropriate market rate for local authority loans.
- No early repayment or impairment is recognised.
- The fair value of short-term investments, including trade payables and receivables is assumed to approximate to the carrying amount given the low and stable interest rate environment.

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

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

	Fair Value Level	31 March 2019		31 March 2020	
		Balance Sheet £000	Fair value £000	Balance Sheet £000	Fair value £000
Financial liabilities held at amortised cost:					
Loans from PWLB	2	(135,556)	(157,601)	(131,254)	(155,369)
Total		(135,556)	(157,601)	(131,254)	(155,369)
Total Financial Liabilities		(135,556)		(131,254)	
Recorded on balance sheet as:					
Short-term borrowing		(4,349)		(4,348)	
Long-term borrowing		(131,207)		(126,906)	
Total Financial Liabilities		(135,556)		(131,254)	

NOTES TO THE ACCOUNTS

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

The fair value of financial liabilities held at amortised cost is higher than the carrying amount because the Council's portfolio of loans includes a number of loans where the interest rate payable is higher than the current rates available for similar loans as at the Balance Sheet date.

	Fair Value Level	31 March 2019		31 March 2020	
		Balance Sheet £000	Fair value £000	Balance Sheet £000	Fair value £000
Financial assets held at fair value:					
Money market funds	1	6,830	6,830	15,270	15,270
Bond, equity and multi-asset funds	1	8,038	8,038	6,874	6,874
Property Funds	2	7,693	7,693	7,485	7,485
Appletree Property Holdings	1	0	0	206	206
Financial assets held at amortised cost:					
Corporate, covered and government bonds	1	7,052	9,642	3,045	2,997
Long-term loans to local authorities, housing associations, harbour commissioner and Appletree Property Holdings	2	9,367	8,487	4,499	4,536
Total		38,980	40,690	37,379	37,368
Assets for which fair value is not disclosed*		30,896		26,429	
Total Financial Assets		69,876		63,808	
Recorded on balance sheet as:					
Long-term investments		28,786		18,636	
Long-term debtors		1,368		1,467	
Short-term investments		28,808		20,062	
Cash and cash equivalents		5,874		18,553	
Short-term trade debtors		5,040		5,090	
Total Financial Assets		69,876		63,808	

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

Property funds totalling £7.485 million have been moved from level 1 to level 2 of the hierarchy for 2019/20 reflecting that there is no longer an active market in these instruments. Fund managers have suspended redemptions reflecting market conditions for underlying properties caused by the economic consequences of the coronavirus pandemic.

The fair value of short-term financial assets, including trade receivables, is assumed to approximate to the carrying amount.

The fair value adjustment is a note to the accounts only; no accounting entry is required.

NOTES TO THE ACCOUNTS

50. OFFICERS' REMUNERATION

The senior employees whose salary exceeded £50,000 per annum for 2019/20 are shown in the table below.

2019/20	Notes	Salary (including fees and allowances)	Compensation for loss of office	Total Remuneration excluding pension contributions	Pension contributions	Total Remuneration including pension contributions
		£	£	£	£	£
Chief Executive	a	118,123	0	118,123	19,018	137,141
Returning Officer	a	34,012	0	34,012	0	34,012
		152,135	0	152,135	19,018	171,153
Executive Head - Operations (Deputy Chief Executive)		86,740	0	86,740	13,965	100,705
Executive Head - Governance and Regulation		85,545	0	85,545	13,773	99,318
Executive Head - Resources		80,740	0	80,740	12,999	93,739
Head of Finance (S151)		68,108	0	68,108	10,965	79,073
Chief Planning Officer		78,437	0	78,437	12,628	91,065
		551,705	0	551,705	83,348	635,053

The Employer's Pension Contributions were 16.10% for 2019/20 (15.10% for 2018/19). There were no Bonuses or Benefits in Kind paid in 2019/20 or 2018/19.

- a) The Chief Executive undertook the Returning Officer role.

NOTES TO THE ACCOUNTS

The figures for 2018/19 were:

2018/19	Notes	Salary (including fees and allowances)	Compensation for loss of office	Total Remuneration excluding pension contributions	Pension contributions	Total Remuneration including pension contributions
		£	£	£	£	£
Chief Executive	b	115,807	0	115,807	17,487	133,294
Returning Officer	b	1,600	0	1,600	0	1,600
		117,407	0	117,407	17,487	134,894
Executive Head - Operations (Deputy Chief Executive)		85,157	0	85,157	12,859	98,016
Executive Head - Governance and Regulation		83,868	0	83,868	12,664	96,532
Executive Head - Resources		79,157	0	79,157	11,953	91,110
Head of Finance (S151)		64,224	0	64,224	9,698	73,922
Chief Planning Officer	c	12,130	0	12,130	1,832	13,962
		441,943	0	441,943	66,493	508,436

- b) The Chief Executive undertook the Returning Officer role.
c) The Chief Planning Officer started on 04/02/2019, the annualised salary for the post was £76,899.

The other officers whose remuneration, including termination benefit costs but excluding pension contributions, was above £50,000 were:

Remuneration Band	Number of Employees			
	2018/19		2019/20	
	Left During Year	Total	Left During Year	Total
£ 50,000 - £ 54,999	3	10	1	10
£ 55,000 - £ 59,999	1	14	0	9
£ 60,000 - £ 64,999	0	3	0	9
£ 65,000 - £ 69,999	1	1	0	1
£ 75,000 - £ 79,999	0	0	1	1
	5	28	2	30

NOTES TO THE ACCOUNTS

51. TERMINATION BENEFITS

The Council terminated the contracts of 19 employees in 2019/20, incurring costs of £389,351 (25 employees, £365,384 in 2018/19). Of this £174,500 was allowed for in the Redundancy provision at the end of 2018/19. There has been no provision made at 31 March 2020 for future terminations which have been committed to, but for which the payment will be incurred in 2020/21.

Exit Package Cost Band (including special payments)	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 £
2019/20				
£0 - £20,000	2	13	15	59,889
£20,001 - £40,000	1	1	2	68,205
£100,001 - £150,000	0	2	2	261,257
Total	3	16	19	389,351
2018/19				
£0 - £20,000	7	11	18	104,570
£20,001 - £40,000	1	3	4	94,191
£40,001 - £100,000	1	2	3	166,623
Total	9	16	25	365,384

52. RELATED PARTIES

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 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 funding in the form of grants and prescribes the terms of many of the transactions that the Council has with other parties. Details of transactions with government departments are set out in note 45.

During 2019/20 the Council provided office accommodation, financial services (including Internal Audit), human resources and geographical information system support to the New Forest National Park Authority. The total income received, which included these services, for 2019/20 was £290,000 (£300,000 for 2018/19). Income due at 31 March 2020 amounted to £15,250. The New Forest National Park Authority provided Ecology, Ranger, Archeology and other miscellaneous services to the Council which cost £69,000 (in 2018/19 Building Design and Conservation services were also provided and therefore total income was £270,000). £3,750 was owed to the New Forest National Park Authority at 31 March 2020.

NOTES TO THE ACCOUNTS

Members of the Council have direct control over the Council's financing and operating policies. The total of members' allowances paid is shown in note 47. During 2019/20 £180 (2018/19 £280) was paid to a company in which 1 member (2018/19 1 member) had an interest. In 2018/19, and 2017/18, no payments were paid to organisations in which members had an interest, but on which there is no Council representative. One member is employed by the Council's bank; this contract was tendered and commenced in December 2014. There were no material transactions with any chief officers during the year.

53. GROUP ACCOUNTS

On the 12 February 2019, the Council incorporated 3 wholly owned companies for the purposes of property acquisition, letting and development:

- Appletree Property Holdings Limited
- Appletree Property Lettings Limited
- Appletree Residential Developments Limited

No group accounts are required for the year ended 31 March 2020, as the transactions undertaken by the companies during this fiscal period were not material to the Council's financial statements.

54. REVENUE EXPENDITURE FUNDED FROM CAPITAL UNDER STATUTE

This note relates to capital expenditure that does not result in the Council owning tangible non-current assets. Such expenditure is required to be treated as revenue expenditure in accordance with the SORP, but under statute can be funded from capital resources.

	Charged to revenue 2019/20 £000	Capital resource funding 2019/20 £000
General Fund		
- Housing Private Sector Disabled Adaptations/Home Repair Loans	1,197	1,197
- Leisure Schemes	50	50
- Transportation	43	43
	1,290	1,290

55. ASSETS HELD FOR SALE

There were no assets held for sale at 31 March 2020.

56. GOING CONCERN

Section 1 – underlying principle

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

NOTES TO THE ACCOUNTS

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.

Section 2 – current & historical financial position

The Council recognises that the financial position has deteriorated in the early months of 2020/21, having suffered irrecoverable income losses and new expenditure pressures during the early part of 2020/21. The deterioration is only due to the impact of Covid-19.

Section 3 – impact of Covid

The 2020/21 balanced budget was set in February 2020 and included contributions to reserves of £2.312 million to support the delivery of the Medium Term Financial Plan to 2023/24.

However, since the budget was set, the emergence of Covid-19 has fundamentally changed the financial regime for a period of at least 3 months until the end of June 2020, with implications set to extend far beyond this. During this period, the Council has incurred approximately £125,000 of additional expenditure each month and has seen income fall by approximately £900,000 each month where services such as leisure and parking were closed and also reductions in income from planning and waste services were forthcoming due to reduced activity. A gradual return of most income streams is anticipated, although not necessarily back to the levels previously budgeted for some time.

The forecast cost pressures and income losses in 2020/21 total circa £7 million. The Council has received £2 million to date from Government as grant funding towards the cost of Covid-19 and has also utilised the furlough scheme to help mitigate income losses in the Leisure Centres. The Council is also aware of a new Income Support Scheme which will provide additional support funding, but the details of the scheme are not yet known.

The Council has instigated a new vacancy control procedure and all service areas are reviewing their budgets during 2020 to identify options for identifying and delivering efficiency savings and / or generating income, with the aim of re-setting a balanced budget for 2020/21 in September 2020. The Medium Term Financial Plan will also be re-drawn, to include assumptions on recovery and some best / worst case scenarios from the long awaiting Comprehensive Spending Review.

Section 4 – conclusion

These accounts have been prepared on a going concern basis. Following the projection of an overspend in 2020/21, a re-balanced budget will be produced for 2020/21 and plans are being progressed which will result in a balanced budget for 2021/22.

57. AUTHORISATION OF ACCOUNTS FOR ISSUE

This Statement of Accounts was authorised for issue on 23 October 2020 by Cllr A O'Sullivan and Mr A Bethune.

HOUSING REVENUE ACCOUNT INCOME AND EXPENDITURE STATEMENT

2018/19		Notes	2019/20
£000			£000
	Income		
(25,762)	Dwelling rents		(26,200)
(767)	Non-dwelling rents		(769)
(730)	Charges for services and facilities		(658)
(382)	Contributions towards expenditure		(375)
(27,641)			(28,002)
	Expenditure		
4,295	Repairs and maintenance	3	4,804
6,010	Supervision and management		6,535
25	Rents, rates, taxes and other charges		93
11,674	Depreciation, impairment and revaluation of non-current assets	4	16,729
16	Debt Management Costs		14
157	Movement in the allowance for bad debts		171
22,177			28,346
(5,464)	Net (Income) / Expenditure of HRA Services as included in the Comprehensive Income and Expenditure Statement		344
146	HRA services' share of Corporate and Democratic Core		146
(5,318)	Net (Income) / Expenditure for HRA Services		490
	HRA share of the Operating Income and Expenditure included in the whole authority Comprehensive Income and Expenditure Statement		
(1,143)	(Gain) / Loss on sale of HRA non-current assets		(1,320)
4,411	Interest payable and similar charges		4,339
(176)	Interest and investment income		(147)
422	Net interest on the net defined benefit liability / (asset)	5	405
(13)	Income and expenditure in relation to investment properties and changes in their fair value		(13)
(996)	Capital Grants and Contributions Receivable		(288)
(2,813)	(Surplus) or Deficit for the year on HRA services		3,466

NOTES TO THE HOUSING REVENUE ACCOUNT

1. HOUSING REVENUE ACCOUNT ASSETS

a) Categorised by type of accommodation

31 March 2020	Houses	Bungalows	Flats	Total
Bedsits	0	0	188	188
1 Bedroom	6	361	811	1,178
2 Bedrooms	728	498	424	1,650
3 Bedrooms	1,936	18	6	1,960
4+ Bedrooms	143	1	0	144
Total	2,813	878	1,429	5,120

31 March 2019	Houses	Bungalows	Flats	Total
Bedsits	0	0	185	185
1 Bedroom	6	362	769	1,137
2 Bedrooms	724	498	407	1,629
3 Bedrooms	1,937	18	6	1,961
4+ Bedrooms	141	1	0	142
Total	2,808	879	1,367	5,054

b) Vacant Possession Value of Dwellings

The following analysis shows the value of dwellings within the HRA if they were sold on the open market with vacant possession.

	1 April 2018	1 April 2019
	£000	£000
Council Housing Assets		
Standard Dwellings	999,422	1,009,604
Restricted Housing	76,069	74,991
Special Housing	3,157	3,538
Garages	8,584	8,584
	1,087,232	1,096,717
Other Assets		
Investment Property	183	183
Land and Other Buildings	1,269	1,755
Community Centre	77	77
	1,529	2,015
	1,088,761	1,098,732

NOTES TO THE HOUSING REVENUE ACCOUNT

c) Gross Value and Number by Type of HRA Assets

This analysis shows the gross value and number by types of dwelling within the HRA. The Balance Sheet value differs from the open market value, reflecting the economic cost to government of providing council housing at less than open market rents.

	1 April 2019		31 March 2020	
	Number of Units	Value £000	Number of Units	Value £000
Council Housing Assets				
Standard Dwellings	4,492	333,168	4,551	338,435
Restricted Housing	536	24,747	540	24,630
Special Housing	26	3,538	29	3,761
Garages	1,800	8,584	1,788	8,747
	6,854	370,037	6,908	375,573
Other Assets				
Investment Property	1	183	1	183
Land and Other Buildings	16	1,755	15	1,408
Community Centre	1	77	1	77
	18	2,015	17	1,668
Total	6,872	372,052	6,925	377,241

d) Capital Expenditure

Housing Revenue Account capital expenditure was applied to:

	2018/19	2019/20
	£000	£000
Major Repairs	5,101	6,214
Environmental Enhancements	278	258
Acquisition and Development Programme	11,597	10,341
Disabled Adaptations	758	937
Total	17,734	17,750

e) Funding of HRA Capital Expenditure

	2018/19	2019/20
	£000	£000
Revenue Contributions	3,851	6,085
Major Repairs Reserve	5,565	8,321
Grant	600	247
Developers' Contributions	394	0
Capital Receipts	7,324	3,097
Total	17,734	17,750

NOTES TO THE HOUSING REVENUE ACCOUNT

2. RENT ARREARS

	31 March 2019	31 March 2020
	£000	£000
Rent Arrears	403	622
- current tenants	279	320
- former tenants	682	942
Less provision for bad debts	(523)	(660)
Anticipated collectable arrears of rent	159	282

3. HOUSING REPAIRS

The following table shows expenditure for the different categories of work undertaken on housing repairs:

	2018/19	2019/20
	£000	£000
Cyclical Maintenance	1,406	1,310
Reactive Maintenance	2,889	3,494
Total	4,295	4,804

The Council also undertook £6.214 million of housing works, which were treated as capital expenditure. The main categories of work were central heating, windows and roof replacements and kitchen and bathroom modernisations.

4. HRA DEPRECIATION AND IMPAIRMENT OF FIXED ASSETS

a) Depreciation

The figures below show the depreciation charged to the Housing Revenue Account analysed over type of asset.

	2018/19	2019/20
	£000	£000
Standard Accommodation	7,485	7,670
Restricted Accommodation	570	570
Special Housing	72	81
	8,127	8,321
Other (included in Supervision and Management costs)	3	3
Total	8,130	8,324

NOTES TO THE HOUSING REVENUE ACCOUNT

b) Impairment

In 2019/20 there was a net increase in Housing asset values credited to the Housing Revenue Account of £3.498 million, but these were offset by capital expenditure not enhancing value of £11.906 million, to arrive at a net impairment debit of £8.408 million. This compares to a net debit of £3.547 million in 2018/19. In 2019/20 other net Housing asset valuation increases credited to the Revaluation Reserve were £3.608 million (£3.062 million credit in 2018/19).

	2018/19 £000	2019/20 £000
Housing Revenue Account/Capital Adjustment Account		
Revaluation Increases	(8,127)	(8,321)
Revaluation Decreases	1,116	4,823
Net Revaluation (Increases)/Decreases	(7,011)	(3,498)
Capital Expenditure not enhancing asset value	10,558	11,906
Total Housing Revenue Account Impairment	3,547	8,408
Revaluation Reserve		
Revaluation Increases	(3,062)	(3,691)
Revaluation Decreases	0	83
Total Revaluation Reserve	(3,062)	(3,608)
Total HRA Impairments/Revaluations	485	4,800

5. HRA CONTRIBUTION TO/FROM THE PENSION RESERVE

The Council has applied IAS19 to the Housing Revenue Account. This means that service expenditure reflects the appropriate allocation of retirement costs earned in the year rather than actual employer's contributions made. An appropriation has been made from the Pensions Reserve to negate the impact on the Housing Revenue Account balance of all items. The following transactions have been made in the HRA:

	2018/19 £000	2019/20 £000
Net Cost of Services:		
Current service cost	1,038	1,476
Past service cost	525	0
Net Operating Expenditure:		
Net Interest Expense	422	405
Amounts to be met from Government Grants and Local Taxation		
Movement on pensions reserve	(1,218)	(909)
Actual amount charged against dwelling rents for pensions in the year:		
Employers' contributions payable to scheme	766	972

NOTES TO THE HOUSING REVENUE ACCOUNT

6. MAJOR REPAIRS RESERVE

The following table shows the movements on the Major Repairs Reserve.

	2018/19	2019/20
	£000	£000
Balance 1 April	0	0
Transferred to Reserve	8,127	8,321
Debits in respect of capital expenditure on land, houses and other property	(5,565)	(8,321)
Debits in respect of housing debt repayment	(2,562)	0
Balance 31 March	0	0

7. CAPITAL RECEIPTS

Total Capital Receipts in respect of the Housing Revenue Account in 2019/20 amounted to £3.161 million (2018/19 was £2.616 million) after adjusting for administration and other costs.

The amount that was due to be paid over to the Ministry of Housing, Communities and Local Government, and included in this total, amounted to £0.574 million (2018/19 was £0.574 million), leaving Usable Capital Receipts of £2.587 million (2017/18 was £2.042 million).

	2018/19	2019/20
	£000	£000
Sale of Land	0	40
Sale of Council Houses	2,616	3,083
Discount Repaid	0	38
Total Capital Receipts	2,616	3,161
Payments due to MHCLG (Local Government Act 2003)	(574)	(574)
Usable Capital Receipts	2,042	2,587

COLLECTION FUND

The Collection Fund is an agent's statement that shows the transactions of the billing authority in relation to the collection of council tax and non-domestic rates from taxpayers and the distribution of the income to local authorities and the Government. While there is only one Collection Fund, separate statements are shown for council tax and non-domestic rates due to the complexity of non-domestic rates transactions following the introduction of the Retention Scheme in 2013/14.

COLLECTION FUND – COUNCIL TAX

The Council collects council tax for its own spending needs and on behalf of Hampshire County Council, Police and Crime Commissioner for Hampshire, Hampshire Fire and Rescue Authority and local town and parish councils.

2018/19			2019/20	
£000	£000		£000	£000
	(121,309)	Income		
		Income from Council Tax		(127,318)
		Transfers to / (from) General Fund:		
(1)		Flood Relief	0	
(65)	(66)	Family Annex Relief	(73)	(73)
	<u>(121,375)</u>	Total Income		<u>(127,391)</u>
		Expenditure		
		Precepts:		
84,813		Hampshire County Council	87,910	
12,532		Police and Crime Commissioner for Hampshire	14,319	
4,643		Hampshire Fire And Rescue Authority	4,812	
17,628		New Forest District Council (including town and parish council requirements)	18,428	
	119,616			125,469
		Bad and Doubtful Debts		
215		Write-offs	177	
35	250	Increase / (decrease) in provisions	168	345
		Contributions:		
	1,567	Previous year's estimated council tax surplus		1,494
	<u>121,433</u>	Total Expenditure		<u>127,308</u>
	<u>58</u>	Movement on fund balance		<u>(83)</u>
(1,510)		(Surplus) / Deficit at 1 April		(1,452)
58		Movement on fund balance for year		(83)
	<u>(1,452)</u>	(Surplus) / Deficit at 31 March		<u>(1,535)</u>

COLLECTION FUND

COLLECTION FUND – BUSINESS RATES

The Council collects business rates for its own spending needs and on behalf of the Government, Hampshire County Council and Hampshire Fire and Rescue Authority.

2018/19			2019/20	
£000	£000		£000	£000
		Income		
	(66,811)	Income collectable from Business Ratepayers Current System		(68,635)
	(1,120)	Transitional Protection Payments		1,015
	<u>(67,931)</u>	Total Income		<u>(67,620)</u>
		Expenditure		
32,862		Payments to DCLG - Business Rates Retention	33,097	
26,290		New Forest District Council	26,478	
5,915		Hampshire County Council	5,958	
657		Hampshire Fire And Rescue Authority	662	
277		Costs of Collection	276	
10		NFDC - Renewable Energy Schemes	10	
	66,011			66,481
		Bad and Doubtful Debts		
184		Write-offs	245	
(84)		Increase / (decrease) in provisions	28	
1,559		Appeals Provision	(404)	
	1,659			(131)
		Contributions:		
	1,671	Previous year's estimated business rates deficit		415
	<u>69,341</u>	Total Expenditure		<u>66,765</u>
	<u>1,410</u>	Movement on fund balance		<u>(855)</u>
(1,797)		(Surplus) / Deficit at 1 April		(387)
1,410		Movement on fund balance for year		(855)
	<u>(387)</u>	(Surplus) / Deficit at 31 March		<u>(1,242)</u>

NOTES TO THE COLLECTION FUND

1. GENERAL

Any surplus or deficit in respect of Council Tax at the end of the year is, during the next year distributed between the billing authority and major precepting authorities in proportion to their precepts in the year the surplus or deficit occurred.

Any surplus or deficit in respect of Business Rates at the end of the year is distributed in accordance with the percentage allocations set out in note 5.

2. CALCULATION OF THE TAX BASE

The Council Tax charge for the year is calculated by dividing the Council's budget requirement by the Council's tax base.

The tax base is the number of chargeable dwellings in each valuation band (adjusted for dwellings where discounts apply) converted to an equivalent number of band D dwellings.

New Forest District Council's tax base for tax setting purposes was calculated as follows:

Band	Estimated number of Taxable Properties *	Ratio	Number of Band D Equivalent Properties
Disabled A	22.00	5/9	12.20
A	5,650.34	6/9	3,766.70
B	10,582.92	7/9	8,231.20
C	16,316.52	8/9	14,503.60
D	17,551.71	9/9	17,552.10
E	12,407.97	11/9	15,165.70
F	6,515.41	13/9	9,410.90
G	4,274.08	15/9	7,123.60
H	555.00	18/9	1,110.00
Total	73,875.95		76,876.00
Less: Adjustment for collection rates			860.20
Less: Council Tax Reduction Scheme			4,941.40
Council Tax Base			71,074.40

* after adjusting for the effects of discounts and anticipated changes during the year for new properties, demolitions, disabled persons relief, exempt properties and successful appeals against valuations.

3. ACCOUNTING FOR THE COLLECTION FUND BALANCE – COUNCIL TAX

The opening balance on the Collection Fund for 2019/20 was a £1.452 million surplus. The surplus at the end of the year is split between Hampshire County Council, New Forest District Council, Police and Crime Commissioner for Hampshire and Hampshire Fire and Rescue Authority.

In the Balance Sheet at 31 March 2020, the Council included the £1.535 million surplus on a disaggregated basis as a creditor of £1.309 million and a £226,000 attributable surplus within the Collection Fund Adjustment Account balance.

NOTES TO THE COLLECTION FUND

4. PRECEPTS AND DEMANDS ON THE COLLECTION FUND – COUNCIL TAX

2018/19				2019/20		
Precept	Share of Surplus / (Deficit)	Total		Precept	Share of Surplus / (Deficit)	Total
£000	£000	£000		£000	£000	£000
84,813	1,030	85,843	Hampshire County Council	87,910	1,075	88,985
12,532	152	12,684	Police and Crime Commissioner for Hampshire	14,319	175	14,494
4,643	56	4,699	Hampshire Fire and Rescue Authority	4,812	59	4,871
17,628	214	17,842	New Forest District Council (including town and parish council requirements)	18,428	226	18,654
119,616	1,452	121,068		125,469	1,535	127,004

5. INCOME FROM BUSINESS RATEPAYERS

Under the arrangements for business rates, the Council collects non-domestic rates for its area, which are based on local rateable values multiplied by a uniform rate determined by the Government. The total amount, less certain reliefs and other reductions, is paid into the Collection Fund before being distributed to Central Government (50%), New Forest District Council (40%), Hampshire County Council (9%) and Hampshire Fire and Rescue Authority (1%).

The total non-domestic rateable value at 31 March 2020 was £170.676 million. The national non-domestic multiplier was 50.4p. This gave a potential business rate yield of £86.021 million. After allowing for items such as rateable value amendments, empty properties, small property reductions and transitional and charitable reliefs, the net amount of business rates collectable was £68.635 million.

6. ACCOUNTING FOR THE COLLECTION FUND BALANCE – BUSINESS RATES

The 2019/20 year end surplus balance on the Collection Fund was £1,242,000. The Council's share is a surplus of £497,000 and Central Government, Hampshire County Council and Hampshire Fire and Rescue Authority share a surplus balance of £745,000. Within the balance sheet the Council's share is shown within the Collection Fund Adjustment Account balance and the partners' share is netted off within creditors.

7. DEMANDS ON THE COLLECTION FUND – BUSINESS RATES

2018/19				2019/20		
Demand	Share of Surplus / (Deficit)	Total		Demand	Share of Surplus / (Deficit)	Total
£000	£000	£000		£000	£000	£000
32,862	194	33,056	Central Government	33,097	621	33,718
5,915	35	5,950	Hampshire County Council	5,958	112	6,070
657	4	661	Hampshire Fire and Rescue Authority	662	12	674
26,290	154	26,444	New Forest District Council	26,478	497	26,975
65,724	387	66,111		66,195	1,242	67,437

GLOSSARY OF TERMS

Budget

The Council's plans set out in financial terms. Both revenue and capital budgets are prepared and are used to control and monitor expenditure and performance.

Capital Expenditure

Expenditure on the purchase of assets, which will be of use or benefit to the Council/Community for longer than one year.

Capital Financing

The raising of money to pay for capital expenditure.

Capital Receipts

Proceeds from the sale of long-term assets e.g. land or buildings.

Direct Revenue Financing

Financing of capital expenditure by a direct charge to a revenue account. This method of finance avoids borrowing.

General Fund

The section of the Council's accounts that covers services paid for by the Council Tax, Non-Domestic Rate and Revenue Support Grant.

Housing Revenue Account

The account which records the income and expenditure relating to the provision of council housing.

Impairment

At the end of each year each asset is reviewed. Impairment is accounted for if there is evidence that there has been a reduction in value.

International Financial Reporting Standards (IFRS)

Accounting practices recommended by the major accounting bodies.

Lease

A method of financing capital expenditure where a rental charge is paid for the use of an asset over a specified period of time. This rental covers a proportion of the capital cost of the asset, together with a return on the finance provided by the leasing company.

Long-term Assets

An asset that has a life of more than one year.

GLOSSARY OF TERMS

Long-term Investments

Loans that the Council has given that are repayable after 364 days of the start of the financial year.

PWLB Debt

Borrowing that is raised from the Public Works Loan Board, a UK Central Government organisation.

Revenue Support Grant (RSG)

Grant paid by the Government to local authorities to help them finance the cost of their services. The system is designed so that if all local authorities spend at the level determined by the Government, the council tax would be the same across the country.

Revenue Expenditure/Income

The costs or income relating to the day-to-day provision of services.

Short-term Investments

Investments that the Council has made that are repayable within 364 days from the date of the original investment.

Short-term Loans

Loans that the Council has raised that are repayable within 364 days of the start of the financial year.

Support Services

The costs of professional, administrative and technical support given to the departments that provides services to the public.

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AUDIT COMMITTEE – 23 OCTOBER 2020

INTERNAL AUDIT PROGRESS REPORT 2020-21 – SEPTEMBER 2020

1. INTRODUCTION

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

2. SUMMARY

- 2.1. Under the Accounts and Audit (England) Regulations 2015, the Council is responsible for:

- ensuring that its financial management is adequate and effective and that it has a sound system of internal control which facilitates the effective exercise of functions and includes arrangements for the management of risk; and
- undertaking an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control.

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

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

- 2.3. Appendix A summarises the performance of Internal Audit for 2020-21 to 30 September 2020.

3. FINANCIAL IMPLICATIONS

- 3.1. The audit plan consists of 470 audit days including 18 audit days provided to the New Forest National Park Authority under the current Service Level Agreement. The Council's budget for 2020-21 reflects these arrangements.

4. CRIME AND DISORDER IMPLICATIONS

- 4.1. There are no crime and disorder implications arising directly from this report, however inadequate audit coverage may result in areas of control weakness, unacceptable risks or governance failings as well as the increased potential for error and fraud.

5. ENVIRONMENTAL MATTERS & EQUALITY AND DIVERSITY IMPLICATIONS

5.1. There are no matters arising directly from this report.

6. RECOMMENDATION

6.1. The Audit Committee note the content of the progress report.

For Further Information Please Contact:

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Background Papers:

Internal Audit Plan 20-21

Internal Audit Progress Report (September 2020)

New Forest District Council



**Southern Internal
Audit Partnership**

Assurance through excellence
and innovation

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1. Role of Internal Audit

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

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

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

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

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

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

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

2. Purpose of report

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

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

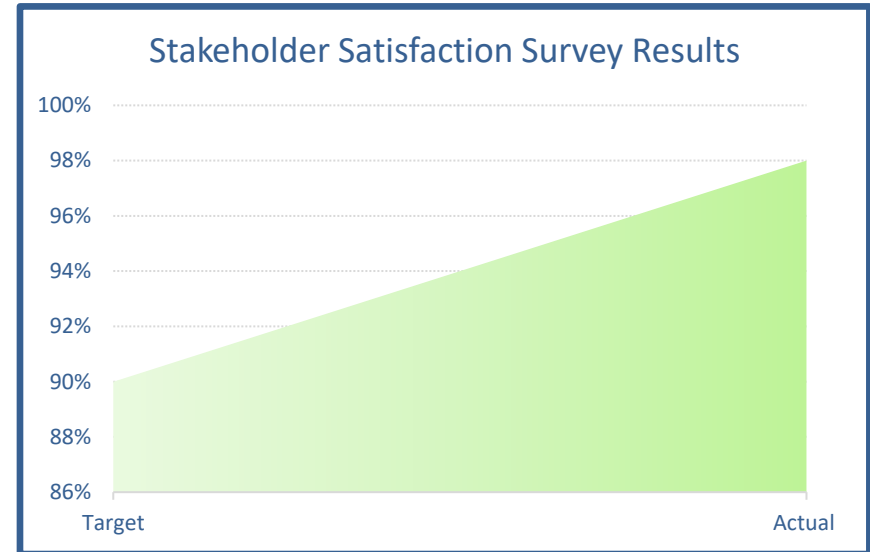
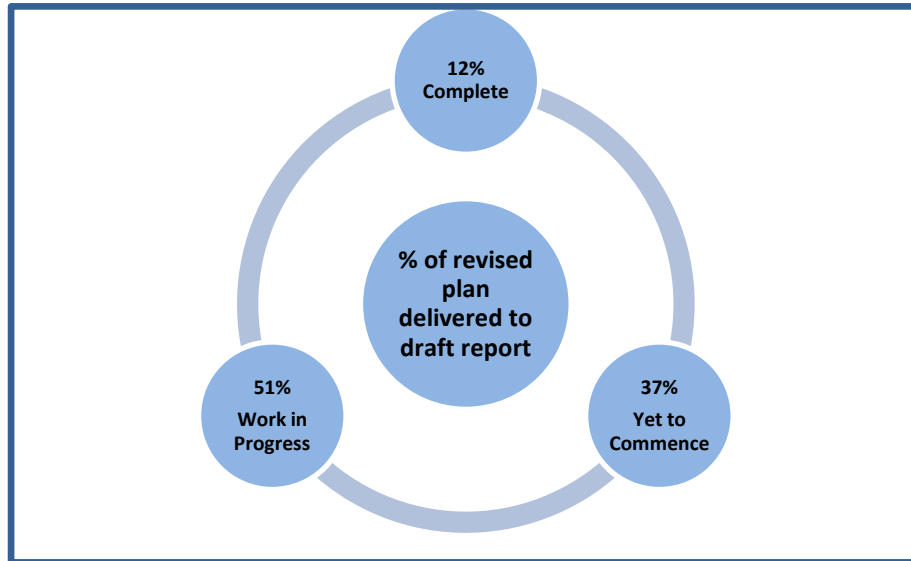
Internal audit reviews culminate in an opinion on the assurance that can be placed on the effectiveness of the framework of risk management, control and governance designed to support the achievement of management objectives of the service area under review.

CIPFA have recently released a paper which examined the case for standardising the terminology and definitions used in internal audit engagements across the whole of the public sector and has subsequently recommended a standard set of opinions and supporting definitions for internal audit service providers to use. To ensure we continue to conform to the best practice principles, we will be adopting the standard definitions for our 2020-21 work and moving forwards. The assurance opinions are categorised as follows:

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

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

3. Performance dashboard



Compliance with Public Sector Internal Audit Standards

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

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

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

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

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

4. Analysis of 'Live' audit reviews

There are 14 outstanding actions (including four high priority actions) relating to two audits completed by the in-house team prior to the move to SIAP (previous reported position was 16 actions from three audit areas). The current progress to resolve the actions is:-

- Payment Card Industry Data Security Standards (PCI DSS) Compliance. The replacement of the legacy financial system, website update and replacement of the telephony system (Summer 2020) should resolve the PCI DSS non-compliance issues.
- Business Continuity. Following an external review of the Council's Business Continuity and Emergency Planning arrangements, actions is being taken to improve the arrangements and address outstanding issues. This will be followed up by Internal Audit once implemented and embedded.

Audit Review	Report Date	Audit Sponsor	Assurance Opinion	Total Management Action(s)	Not Accepted	Not Yet Due	Complete	Overdue		
								L	M	H
Environmental Services - Trade Waste *	Oct 18	SM (W&T)	Limited	18	0	0	18			
Risk Management	Mar 19	SM (E&BI)	Adequate	1	0	0	0	1		
Main Accounting	Mar 19	HoF	Substantial	4	0	0	3		1	
Income Collection	May 19	SM (E&BI)	Adequate	1	0	0	0		1	
Procurement *	Jun 19	SM (L&P)	Adequate	4	0	0	4			
Working in Partnership	Jun 19	SM (E&BI)	Adequate	8	0	0	5		2	1
Housing Asset Management – Lift Inspection and Maintenance *	Jul 19	SM (HMA &C)	Limited	5	0	0	5			
Environmental and Regulation – (Food & Safety and Environmental Protection)	Oct 19	SM (E&R)	Adequate	2	0	0	1		1	
Programme and Project Management	Nov 19	HoF	Adequate	9	0	0	4	1	1	3
Parking and Enforcement	Nov 19	SM (S)	Adequate	6	0	0	0	1	5	
Land charges	Mar 20	CPO	Adequate	8	0	4	1	2	1	

Asset Management (Appletree Property Holdings) *	Mar 20	SM (EV&IP)	Substantial	1	0	0	1			
Service Desk and Incident Management	Apr 20	SM (ICT)	Adequate	6	0	4	2			
Accounts Receivable / Debt Management	May 20	SM (R&B)	Adequate	1	0	0	0		1	
P-Card Taxation (VAT)	May 20	HoF	Adequate	2	0	0	0		2	
Fleet Management	May 20	SM (W&T)	Limited	18	0	9	9			
Software licensing / Management of assets	May 20	SM (ICT)	Limited	12	0	2	10			
Main Accounting	May 20	HoF	Adequate	5	0	0	0		5	
Housing Finance (Right-to-Buy)	Jun 20	SM (HO)	Adequate	2	0	1	1			
Community Safety - CCTV	Jun 20	SM (EM&S)	Adequate	4	0	0	3			1
Information Governance	Jun 20	SM (L&P)	Adequate	3	0	2	1			
Lease Income	Jun 20	SM (EV&IP)	Adequate	2	0	0	0		2	
Planning (incl. Community Infrastructure Levy)	Jun 20	SM (PMD)	Adequate	4	0	3	1			
Health & Safety	Jul 20	SM (E&R)	Adequate	6	0	6	0			
Housing Asset Management (Planned Maintenance) *	Jul 20	SM (HMAC)	Adequate	5	0	0	5			
Fraud Governance	Sep 20	SM (R&B)	Substantial	2	0	2	0			
Busines Grants (COVID) *	Sep 20	SM (R&B)	Substantial	1	0	0	1			
Total								5	22	5

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

Audit Sponsor		Audit Sponsor	
Service Manager (Elections & Business Improvement)	SM (E&BI)	Service Manager (Housing Maintenance - Operations)	SM (HMO)
Head of Finance	HoF	Service Manager (Housing Maintenance – Asset and Compliance)	SM (HMAC)
Service Manager (Estates & Valuation)	SM (E&V)	Service Manager (Environmental & Regulation)	SM (E&R)
Service Manager (Human Resources)	SM (HR)	Service Manager (Health & Leisure)	SM (H&L)
Service Manager (Legal & Procurement)	SM (L&P)	Service Manager (Waste & Transport)	SM (W&T)
Service Manager (Democratic Services & Member Support)	SM (DS&MS)	Service Manager (Coastal & Public Facilities)	SM (C&PF)
Service Manager (Estate Management & Support)	SM (EM&S)	Service Manager (Open Spaces)	SM (OS)
Service Manager (Revenues & Benefits)	SM (R&B)	Service Manager (Planning Management Development)	SM (PMD)
Service Manager (ICT)	SM (ICT)	Service Manager (StreetScene)	SM (S)
Service Manager (Housing Options)	SM (HO)	Service Manager (Estates, Valuation & Investment Property)	SM (EV&IP)
Chief Planning Officer	CPO		

5. Executive Summaries of reports published concluding a ‘Limited’ or ‘No’ assurance opinion

There have been no ‘Limited’ or ‘No’ assurance opinion reports issued during 2020-21.

6. Planning & Resourcing

The Internal Audit Plan for 2020-21 was discussed by EMT and circulated to the Audit Committee in March 2020. The audit plan remains fluid to provide a responsive service that reacts to the changing needs of the Council. Progress against the plan is detailed within section 7.

7. Rolling Work Programme

Audit Review	Sponsor	Scoping	Audit Outline	Fieldwork	Draft Report	Final Report	Assurance Opinion	Comment
2019-20								
Housing Asset Management (Planned Maintenance)	SM (HMAC)	✓	✓	✓	May 20	Jul 20	Adequate	2019-20 Opinion
Licensing	SM (E&R)	✓	✓	✓	Jun 20	Jul 20	Substantial	2019-20 Opinion
2020-21								
Corporate / Governance Framework								
Corporate Plan / Performance Management	SM (E&BI)	✓	✓	✓	Sep 20		n/a	Advisory role on the developing framework.
Climate Change	EMT							Q4
Financial Stability	HoF							Q3
Alternative Delivery Methods / Partnership Working	SM (EM&S)							Q3
Information Governance	SM (L&P)							Q3
Procurement	SM (L&P)	✓	✓	✓				
Contract Management	SM (L&P)	✓						Q3
Fraud Governance	SM (R&B)	✓	✓	✓	Aug 20	Sep 20	Substantial	
Fraud Training – PCards *	SM (R&B)	✓	n/a					Q3

Audit Review	Sponsor	Scoping	Audit Outline	Fieldwork	Draft Report	Final Report	Assurance Opinion	Comment
Health and Safety (COVID) *	SM (E&R)	✓	✓	✓				
Business Continuity and Emergency Planning	SM (E&R)	✓						Q4
Risk Management	HoF							Q4
Governance – Decision Making (COVID)*	SM (L&P)	✓	✓	✓				
Human Resources								
Recruitment	SM (HR)							Q3
Travel, Expenses and Overtime	SM (HR)							Q3
Core Financial Systems								
Council Tax	SM (R&B)	✓						Q3
NNDR	SM (R&B)	✓						Q3
Accounts Payable	SM (R&B)	✓						Q4
Accounts Receivable and Debt Management	SM (R&B)	✓						Q3
Main Accounting and Reconciliations	SM (R&B)	✓						Q4
Income Collection and Banking	SM (R&B)	✓						Q4
Busines Grants (COVID) *	SM (R&B)	✓	✓	✓	Aug 20	Sep 20	Substantial	
Information Technology								
IT Infrastructure Management	SM (ICT)							Q4
Northgate Application Review	SM (ICT)	✓	✓	✓				
Cyber Security *	SM (ICT)	✓						Q4
PCI DSS Advice	SM (ICT)	n/a	n/a					Advisory role
IT Disaster Recovery and Business Continuity Planning Advice	SM (ICT)	n/a	n/a					Advisory role
Portfolio Themes								
Housing Rents	SM (HO)							Q4

Audit Review	Sponsor	Scoping	Audit Outline	Fieldwork	Draft Report	Final Report	Assurance Opinion	Comment
Housing Asset Management	SM (HMAC)							Q3
Housing Finance Management – Tenancies	SM (HO)	✓	✓	✓				
HMO Licencing	SM (HO)	✓	✓	✓				
Gas Inspections *	SM (HMAC)	✓	✓	✓				
Disabled Facilities Grants	SM (HO)	✓	✓	✓				
Development Management	CPO							Q4
Regeneration / Economic Development	CPO							Q4
Health and Leisure	SM (H&L)							Q4
Grounds / Tree Maintenance / Open Spaces	SM (OS)							Q3
Coastal Management and Protection	SM (C&PF)	✓	✓	✓				
Fleet Management	SM (W&T)							Follow-up review Q4
Environmental Services	SM (W&T)							Q3
LG Income Compensation Scheme *	HoF	n/a	n/a	✓				Certification work in three phases.

* Denotes plan additions

Annexe 1 - Adjustments to the plan

Audit reviews added to the plan (included in rolling work programme above)	
Health and Safety (COVID)*	To review the Council's Health & Safety response to COVID-19 in relation to staff and premises.
Governance – Decision Making (COVID)*	To review the implementation and use of revised governance arrangements brought in as a result of COVID-19.
Busines Grants (COVID)*	To review the arrangements for awarding Business Grants to support local businesses through the pandemic.
Gas Inspections*	To review the Council's compliance with statutory obligations as a social landlord during COVID-19.
Cyber Security*	To review user training and website protection, providing the missing third level assurance highlighted in the 19/20 Cyber Security Assurance Mapping report.
Fraud Awareness Training*	To provide training to Council staff in mitigating the risks of fraud with Procurement Card (PCard) usage).
LG Income Compensation Scheme*	Challenge the appropriateness of 3 claims for the Local Government Income Compensation Scheme for lost sales, fees and charges.

Proposed October 2020 *

Audit reviews removed from the plan (excluded from rolling work programme)	
Programme & Project Management*	Defer review. Development and implementation of a programme and project management framework during 20.21 has been delayed due to responding to COVID-19.
HR – Performance Management*	Performance management module has been implemented during 20.21 with completion of performance appraisals required by 31.03.21 therefore defer to 21.22 to assess full year cycle and utilise audit days to offset plan additions into 20.21.
Housing IT Application Review*	Defer review in order to assess Cyber Security which is of higher risk.
Commercial Activities*	Defer review. Planned developments have been delayed by six months due to COVID-19 therefore review planned activity in 21.22.

Proposed October 2020*

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

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

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AUDIT COMMITTEE – 23 OCTOBER 2020

INTERNAL AUDIT – EXTERNAL QUALITY ASSESSMENT 2020

1. INTRODUCTION

- 1.1. The purpose of this paper is to present the outcome of the recent external quality assessment of the Southern Internal Audit Partnership (SIAP) against the International Professional Performance Framework (IPPF), the Public Sector Internal Audit Standards (PSIAS) and the Local Government Application Note (LGAN) required as part of the Standards (Attribute Standard 1312 – External Assessment).

2. SUMMARY

- 2.1. The Accounts and Audit (England) Regulations 2015 – S5 state:

‘(1) A relevant body must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance.’

- 2.2. The Public Sector Internal Audit Standards and the Local Government Application Note together comprise ‘internal auditing standards and guidance’ as referenced in the Regulations.
- 2.3. PSIAS require the Head of the Southern Internal Audit Partnership to develop and maintain a quality assurance and improvement programme that covers all aspects of the internal audit service including provision for both internal and external quality assessments.
- 2.4. An external quality assessment is required to be undertaken every five years by an independent assessment team from outside of the organisation. The last external assessment of SIAP was completed in October 2015 by the Institute of Internal Auditors (IIA).
- 2.5. The external assessment was completed during 4th – 11th September 2020. The review included a thorough validation of the SIAP’s self-assessment, a significant number of interviews with key stakeholders across our partner and client organisations, SIAP team members, as well as an extensive customer survey.

3. CONCLUSION

- 3.1. The external assessment concluded that the Southern Internal Audit Partnership conform to all aspects of the International Professional Performance Framework, Public Sector Internal Audit Standards and Local Government Application Note.

- 3.2. In assessing the SIAP against the IIA's Maturity Matrix, the assessors concluded that the SIAP team are:

Excellent in their:

- Reflection of the Standards
- Focus on performance, risk and adding value
- Quality Assurance and Improvement Programme

Good in their:

- Operating with efficiency
- Coordinating and maximising assurance.

- 3.3. The External Assessors did present a number of improvement opportunities for the partnership. Whilst these are not issues of conformance with the IPPF, PSIAS and LGAN, they do have the potential to further strengthen the impact of the internal audit service. An action plan in response to the opportunities raised has been developed.
- 3.4. Appendix 1 provides the IIA's SIAP External Quality Assessment – Final Report.

4. FINANCIAL IMPLICATIONS

- 4.1. None directly, the cost of the external assessment is included within the overall partnership arrangements with the Council.

5. CRIME AND DISORDER IMPLICATIONS

- 5.1. There are no crime and disorder implications arising directly from this report.

6. ENVIRONMENTAL MATTERS & EQUALITY AND DIVERSITY IMPLICATIONS

- 6.1. There are no matters arising directly from this report.

7. RECOMMENDATION

- 7.1. The Audit Committee note the content of the report.

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Background Papers:
None



Setting the standards **together**



Chartered Institute of
Internal Auditors

External Quality Assessment (EQA)

Report for:

Southern Internal Audit Partnership



Prepared by John Chesshire, Bethan Jones
and Liz Sandwith
approved reviewers for
The Chartered Institute of Internal Auditors
14 September 2020

www.iaa.org.uk/eqa



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1.1 Background and Scope

The internal audit service provided by Southern Internal Audit Partnership (SIAP) delivers internal audit services to one strategic Partner (Hampshire County Council), 17 key stakeholder partners (including county, district, borough and city councils, police, fire and rescue and related bodies) and 10 external clients.

The Head of Partnership (supported by the Assistant Head) and two Deputy Heads fulfil the Chief Internal Auditor (CIA) roles for their respective client portfolios. They report functionally to Audit Committees in the partner and client organisations. In addition, the Head of Partnership reports strategically to the Key Stakeholder Board.

SIAP seeks to bring together the professional discipline of internal audit across partnering organisations, pooling expertise and enabling a flexible, responsive and resilient service to our partner and client portfolio. To help achieve this, SIAP follows the IIA's Mission for internal auditing and the International Professional Practices Framework (IPPF) and the Public Sector Internal Audit Standards (PSIAS).

The Chartered Institute of Internal Auditors previously undertook an external quality assessment (EQA) of SIAP in 2015. We are delighted that SIAP commissioned us to undertake this current EQA once again.

Our review included a thorough validation of the SIAP's self-assessment, a significant number of interviews with key stakeholders across the partner and client organisations, SIAP team members, as well as an extensive customer survey.

Given the pandemic, we conducted this EQA remotely.

1.2 Key Achievements

SIAP is an established and effective internal audit service, valued by key stakeholders in its partner and client organisations.

The governance framework over SIAP is mature, with a well-established Key Stakeholder Board and Audit Committee oversight, regular meetings, reporting and performance monitoring.

A very experienced Head of Partnership leads the SIAP team, supported by three senior managers. Engagement with key stakeholders is regular and effective, with the Head of Partnership viewed as a trusted, independent and respected leader.

SIAP team members have diverse professional backgrounds, qualifications, experience and skills, making them a flexible and effective service. They can tackle a wide range of assurance, consulting and investigatory challenges. The team also contains IT audit and counter fraud specialists. The Head of Partnership could procure additional external support if needed through a budget for co-sourcing. SIAP operates a matrix management approach to team operation and deployment.

Our stakeholder survey results were also positive. Individual comments were very supportive, with very few areas for improvement identified. We also received positive responses to our questions from the key stakeholders we interviewed. Individuals particularly welcomed the SIAP team's overall professionalism, objectivity, engagement, planning and reporting. Suggested areas for improvement were minimal.

The team's Audit Charter is comprehensive, up to date and supported by an appropriate internal audit methodology. The team have developed and delivered annual risk-based audit plans for each of their clients and are moving to a more flexible quarterly

approach. Key stakeholders are actively engaged in the design of these plans. The SIAP team document progress and the Head of Partnership and senior colleagues report on this at regular Audit Committee meetings.

SIAP managers actively monitor performance, the Head of Partnership measures and reports on a small number of KPIs, and a thorough, documented Quality Assurance and Improvement Programme is in place. The team make good use of MKI audit management software. They are also making progress on implementing a more data analytics-driven approach to some internal audit engagements but acknowledge that they need to undertake more work in this area.

We believe that the supporting operational SIAP team processes, documentation and associated templates are fit for purpose. SIAP managers have detailed these in a variety of key documents.

Our file reviews showed appropriate compliance with the team's methodology and evidence of appropriate scope, objectives, testing, evidence, supervision and review.

1.3 EQA Assessment Conclusion

We are pleased to report that the SIAP team meet each of the Standards, as well as the Definition, Core Principles and the Code of Ethics, which form the mandatory elements of the Public Sector Internal Audit Standards (PSIAS) and the Institute of Internal Auditors' International Professional Practices Framework (IPPF), the globally recognised standard for quality in Internal Auditing.

To summarise, we are delighted to report that the SIAP team are excellent in their:

- Reflection of the Standards
- Focus on performance, risk and adding value
- Quality Assurance and Improvement Programme

We believe that the SIAP team are good in their:

- Operating with efficiency
- Coordinating and maximising assurance

In conclusion, this is an excellent result and the Head of Partnership and SIAP team should be justifiably proud of their service, its approach, working practices and how key stakeholders' value it.

It is therefore appropriate for the function to say in reports and other literature 'Conducted in Conformance with the International Standards for the Professional Practice of Internal Auditing'.

1.4 Conformance Opinion

The mandatory elements of the IPPF include the Definition of Internal Auditing, Code of Ethics, Core Principles and International Standards.

There are 64 fundamental principles to achieve with 118 points of recommended practice. We assess against the principles.

It is our view that the Southern Internal Audit Partnership conforms to all 64 of these principles. This is summarised in the table below.

Summary of Conformance	Standards	Generally Conforms	Partially Conforms	Does not conform	Not relevant	Total
Definition of IA and Code of Ethics	Rules of conduct	12				12
Purpose	1000 - 1130	8				8
Proficiency and Due Professional Care (People)	1200 - 1230	4				4
Quality Assurance and Improvement Programme	1300 - 1322	7				7
Managing the Internal Audit Activity	2000 - 2130	12				12
Performance and Delivery	2200 - 2600	21				21
Total		64				64

As a result, we make no formal recommendations for improvement.

We have also reviewed SIAP conformance with the Public Sector Internal Audit Standards (PSIAS) and Local Government Application Note (LGAN). We are pleased to report that SIAP conform with all relevant, associated elements.

The Chartered Institute regards conformance to the IPPF as the foundation for effective internal audit practice. However, our EQA reviews also seek feedback from key stakeholders and we benchmark each function against the diversity of professional practice seen on our EQA reviews and other interviews with heads of internal audit, summarised in an internal audit maturity matrix.

We then interpret our findings into suggestions for further development based upon the wide range of guidance published by the Chartered Institute.

It is our aim to offer advice and a degree of challenge to help internal audit activities continue their journey towards best practice and excellence.

In the following pages we present this advice in three formats:

- A SWOT analysis to recognise the accomplishments of the team and to highlight potential threats and opportunities for development. [\(See 2.1\)](#)
- A matrix describing the key criteria of effective internal audit, highlighting the level SIAP has achieved and the potential for further development, recognising that effective internal audit goes further than purely conformance with internal auditing standards. [\(See 2.2\)](#)
- A series of improvement opportunities and suggestions which the internal audit team could use as a basis for an action plan. [\(See 2.3\)](#)

2.1 SWOT Analysis

What works well (Strengths)

- An experienced, diverse and professional team, with a broad mix of qualifications, backgrounds and specialisms, including IT and counter fraud
- The Head of Partnership is well-respected, independent, confident and knowledgeable
- Move to quarterly planning demonstrates greater agility and responsiveness to a volatile, changing environment
- Very positive staff and stakeholder survey results
- The 'added value' section in the internal audit reports usefully highlights good practice and improvement opportunities
- Training and Development Plan developed, particularly in response to recruitment and expansion. Well-received training sessions delivered at the start of the pandemic
- SIAP governance is clearly documented (Charters, Plans, Audit Methodology and flowcharts, the QAIP etc.) and the audit methodology, including action follow up, works well
- Client relationship management - effective relationships with key stakeholders, both councillors and officers
- Stakeholders value the sharing of best practice and emerging issues across the sector and between organisations

What could be done better (Weaknesses)

- Lengthy elapsed time for some internal audit engagements

What could deliver further value (Opportunities)

- Virtual/remote working 'lessons learned' and implementation, coupled with a more agile-focused mindset
- Progressing the implementation of enhanced data analytics would enable more comprehensive testing and reliable, insightful conclusions and reporting
- MKI Upgrades likely to enhance functionality and improve the internal audit methodology and working practices, potentially including automated action tracking and reviewer sign off
- Further emphasis on assurance mapping, coupled with placing reliance on assurance providers in the second line
- Continue with the ongoing development of quarterly planning enabling new business areas, emerging areas of risk and changing business processes are adequately
- Increasing visibility and awareness of SIAP by an appropriate presence on each partner website and/or intranet site
- Increased sharing of lessons, benchmarking and good practice would demonstrate further added value
- The Staff Survey highlighted some desire for improved intra-team communications and better celebration of success. Communication of successes from internal audit engagements could be motivational and help embed lessons and good practices across the wider SIAP service
- Rotating managers more frequently between clients can ensure fresh perspectives and help avoid over-familiarity

What could stand in your way (Threats)

- Partner and client funding cuts would threaten internal audit delivery, resourcing, resilience and the ability of the Head of SIAP to provide evidence-based annual opinions
- Client data quality may limit the opportunity to benefit from enhanced data analytics
- Second line functions may need to mature more fully. Unless this happens, the SIAP team will be unable to place further reliance on them, or coordinate their work more effectively, with them
- Excessive staff turnover and unfilled vacancies, could threaten service delivery
- A potential second wave of COVID could impact service delivery - not everything can be audited remotely - and threaten the ability of the CIA to deliver an annual opinion

2.2 Internal Audit Maturity Matrix

Assessment	IIA standards	Focus on performance, risk and adding value.	Coordination and maximising assurance	Operating with efficiency	Quality Assurance and Improvement Programme
Excellent	Outstanding reflection of the IIA standards, in terms of logic, flow and spirit. Generally Conforms in all areas.	IA alignment to the organisation's objectives, risks and change. IA has a high profile, is listened to and is respected for its assessment, advice and insight.	IA is fully independent and is recognised by all as the 3rd line. The work of assurance providers is coordinated with IA reviewing reliability of.	Assignments are project managed to time and budget using tools/techniques for delivery. IA reports are clear, concise and produced promptly.	Ongoing efforts by IA team to enhance quality through continuous improvement. QA&IP plan is shared with, and approved by, AC.
Good	The IIA Standards are fully integrated into the methodology – mainly Generally Conforms.	Clear links between IA engagement objectives to risks and critical success factors, with some acknowledgement of the value-added dimension.	Coordination is planned at a high-level around key risks. IA has established formal relationships with regular review of reliability.	Audit engagements are controlled and reviewed while in progress. Reporting is refined regularly, linking opinions to key risks.	Quality is regarded highly, includes lessons learnt, scorecard measures and customer feedback with results shared with AC.
Satisfactory	Most of the IIA Standards are found in the methodology, with scope to increase conformance from Partially to Generally Conform in some areas.	Methodology requires the purpose of IA engagements to be linked to objectives and risks. IA provides advice and is involved in change, but criteria and role require clarity.	The 3 lines model is regarded as important. Planning of coordination is active and IA has developed better working relationships with some review of reliability.	Methodology recognises the need to manage engagement efficiency and timeliness, but further consistency is needed. Reports are informative and valued.	Clear evidence of timely QA in assignments with learning points and coaching. Customer feedback is evident. Wider QA&IP may need formalising.
Needs improvement	Gaps in the methodology with a combination of Non-conformances and Partial Conformances to the IIA Standards.	Some connections to the organisation's objectives and risks, but IA engagements are mainly cyclical and prone to change at management request.	The need to coordinate assurance is recognised but progress is slow. Some informal coordination occurs but reviewing reliability may be resisted.	Multiple guides that are slightly out of date and form a consistent and coherent whole. Engagements go beyond deadline and a number are deferred.	QC not consistently embedded across the function. QA is limited / late or does not address root causes.
Poor	No reference to the IIA Standards, with significant levels of non-conformance.	No relationship between IA engagements and the organisation's objectives, risks and performance. Many audits are ad hoc.	IA performs its role in an isolated way. There is a feeling of audit overload, with confusion about what various auditors do.	Lack of a defined methodology with inconsistent results. Reports are usually late with little perceived value.	No evidence of ownership of quality by the IA team.

2.3 Improvement Opportunities

This section of the report details additional feedback and observations which, if addressed, could strengthen the impact of Internal Audit. These observations are not conformance points but support Internal Audit's ongoing development.

These suggestions do not require a response; they will not form part of any subsequent follow up if undertaken.

Opportunity A

Elapsed time on internal audit engagements - there is a long, elapsed time from start to finish for some of the engagements carried out across the partner organisations. There is no single reason for this, but SIAP economy, efficiency and effectiveness would be improved if elapsed time was reduced. The Head of Partnership and the SMT have recognised this as an area for improvement and will explore more agile ways of working and assess good practices employed across the SIAP team to help reduce this.

Suggestion: We believe that the Head of Partnership and the SMT could usefully revisit SIAP engagement delivery to better assess the root causes of delays, and pilot solutions. Potential solutions may certainly include employing a more agile 'site audit' approach and mindset on some engagements, deploying task-based teams on specific engagements (rather than solo personnel), closer engagement with the audit client to ensure availability for short duration intense engagements, or undertaking additional identical audits using the same team members across several partner organisations, to increase pace and efficiency. We support the intention to focus on improving this area.

Opportunity B

Data Analytics - the SIAP team have begun to employ data analytics in relevant assurance engagements but have been hampered by poor quality data in some areas to date. The Head of Partnership and the SMT want to expand the use of data analytics and recognise the benefits this will bring the service.

Suggestion: We believe that the Head of Partnership and the SMT should consider how best to increase and embed the use of data analytics more rapidly across SIAP to enhance the depth and breadth of assurances provided. Some leading internal audit teams have moved to a methodology position of having to justify why data analytics should not be employed on an engagement. The expectation is that use of data analytics is the default position for every engagement. Other internal audit teams have developed a strategy covering a roadmap to roll out and embed a data analytics capability and mindset over a three-year horizon.

Opportunity C

Audit Management Software - The SIAP team are currently awaiting further enhancements to their MKI software application.

Suggestion: We believe that team efficiency could be further enhanced if they requested an upgrade to the way in which evidencing management review of audit work occurs, perhaps through working paper 'date stamp' functionality. We found the current review process to be cumbersome and time-consuming. Additionally, to further ongoing initiatives to automate the action tracking process, seek to enable the system to automatically email action owners at regular intervals. This would also enhance team efficiency and reduce the need for manual intervention.

Opportunity D

Remote working and the future - what the internal audit working environment of the future will look like is unclear. The extent to which a mixed economy of office and remote working is here to stay is uncertain. However, the SIAP team have responded well to pandemic-driven changes, and a comment in the recent staff survey highlights that “in terms of flexible working, the strategy is being completed collaboratively in consultation with staff”. Whatever happens, pressure on the SIAP’s key stakeholders, managers and staff is likely to increase, available time will decrease and this may challenge aspects of the internal audit process and relationships.

Suggestion: We believe that the Head of Partnership and the SMT could usefully undertake a lessons learned review of what has worked well over the last six months, where improvements are required, what the key ‘ways of working’ learning points are and how the SIAP approach, ethos and methodology may need to adapt to ensure continued stakeholder buy-in, effective relations, the acceptance of the need for internal audit engagements and the timely implementation of any ensuing actions, in a changed and challenging environment.

Opportunity E

Coordination and reliance on other assurance providers - further emphasis on assurance mapping, coupled with placing reliance on assurance providers in the second line (where it is right to do so) may increase the effectiveness of assurances to senior management and the audit committee(s).

Suggestion: We believe that the Head of Partnership should continue to develop a robust, reliable and value-adding approach to assurance mapping and reliance, to enhance efficiency and effectiveness.

Opportunity F

Periodic Planning - the move to a more flexible and responsive quarterly planning, engagement allocation and delivery model is a welcome development and appropriate for the current volatile and changing environment.

Suggestion: We support the Head of Partnership in continuing to ensure that new business teams, innovative or revised services, emerging areas of risk and changing partner and client governance, strategies and delivery models are adequately covered in the SIAP risk assessment and reflected in these quarterly internal audit plans. This will help ensure the team remain insightful, proactive, and future-focused, providing professional assurance over new and emerging areas of organisational risk. Continued oversight of evolving areas of internal audit practice from research, networking and professional events will assist this approach.

The following rating scale has been used in this report:

Generally Conforms (GC)	<p>The reviewer has concluded that the relevant structures, policies, and procedures of the activity, as well as the processes by which they are applied, comply with the requirements of the individual Standard or element of the Code of Ethics in all material respects. For the sections and major categories, this means that there is general conformance to a majority of the individual Standards or elements of the Code of Ethics, and at least partial conformance to the others, within the section/category. There may be significant opportunities for improvement, but these must not represent situations where the activity has not implemented the Standards or the Code of Ethics, has not applied them effectively, or has not achieved their stated objectives. As indicated above, general conformance does not require complete/perfect conformance, the ideal situation, successful practice, etc.</p>
Partially Conforms (PC)	<p>The reviewer has concluded that the activity is making good-faith efforts to comply with the requirements of the individual Standard or element of the Code of Ethics, section, or major category, but falls short of achieving some major objectives. These will usually represent significant opportunities for improvement in effectively applying the Standards or Code of Ethics and/or achieving their objectives. Some deficiencies may be beyond the control of the activity and may result in recommendations to senior management or the board of the organisation.</p>
Does Not Conform (DNC)	<p>The reviewer has concluded that the activity is not aware of, is not making good-faith efforts to comply with, or is failing to achieve many/all of the objectives of the individual Standard or element of the Code of Ethics, section, or major category. These deficiencies will usually have a significant negative impact on the activity's effectiveness and its potential to add value to the organisation. They may also represent significant opportunities for improvement, including actions by senior management or the board.</p>

Often, the most difficult evaluation is the distinction between general and partial. It is a judgement call keeping in mind the definition of general conformance above. The reviewer must determine if basic conformance exists. The existence of opportunities for improvement, better alternatives, or other successful practices does not reduce a "generally conforms" rating

Stakeholder Interviews

We interviewed the following individuals as part of the review. We also sent out stakeholder surveys to 38 senior managers and Audit Committee members across the partner organisations. We are pleased to have received 19 completed survey responses from the 38 requests. We have shared the anonymised survey results with the Head of Partnership.

Stakeholders	Title / position	Internal Audit team	Title / position
Cllr Nigel Dennis	Chair Regulation, Audit and Accounts Committee, West Sussex County Council	Neil Pitman	Head of Partnership
Gill Kneller	Chief Executive, Havant Borough Council and East Hampshire District Council	Karen Shaw	Deputy Head of SIAP
Cllr Margot Power	Chair Audit Committee, Winchester City Council	Nat Jerams	Assistant Head of SIAP
Katharine Eberhart	Director Finance and Support Services, West Sussex County Council	Ant Harvey	Deputy Head of SIAP
Melvyn Neate	Chair, Hampshire Joint Audit Committee	Abbas Alimohamed	Auditor
Nick Gray	Deputy Chief Executive and S151 Officer, Mole Valley District Council	Chris Benn	Senior Auditor
Cllr Allan O'Sullivan	Chair Audit Committee, New Forest District Council	Bev Davies	Audit Manager
Carolyn Williamson	Director of Resources and Deputy Chief Executive (S151), Hampshire County Council		
Paul Burden	Chair, Sussex Joint Audit Committee		

Lydia Morrison	S151 Officer, Havant Borough Council and East Hampshire District Council
John Coughlan	Chief Executive, Hampshire County Council
Cllr Keith Evans	Chair Audit Committee, Hampshire County Council
Richard Croucher	Chief Finance Officer, Hampshire Constabulary and Deputy Chief Finance Officer Hampshire Fire and Rescue Authority
Pat Main	S151 Officer, Reigate and Banstead Borough Council
Bob Jackson	Chief Executive, New Forest District Council
Elaine Jackson	Acting Chief Executive, Tandridge District Council
Cllr Briggs	Chair of Governance, Audit and Finance Board, Havant Borough Council
Lisa Kirkman	Strategic Director Resources, Winchester City Council

Acknowledgement

We would like to thank the SIAP team for their time, assistance and support during this review and all those who took part in the review for their co-operation together with their open and honest views.

Feedback from stakeholder interviews and surveys

Working with the business

“The service is very proactive and accessible. They keep me regularly informed of progress and any issues they have”. Stakeholder Survey feedback.

“The SIAP team have a very good relationship with the senior management team - this makes life so much easier when issues arise”. Stakeholder interview.

“The team are proactive and responsive”. Stakeholder interview.

“Those being audited feel that SIAP are undertaking the audit ‘with’ them not ‘to’ them”. Stakeholder interview.

Communication

“Their reports are about right – clear, straightforward and an appropriate length”. Stakeholder interview.

“The team are exceptionally professional, and sensitive, and have developed confidence in the staff, which ensures the accuracy of the audit is underpinned”. Stakeholder Survey feedback.

“They deliver good, professional presentations to the Executive Board”. Stakeholder interview.

“It is very apparent in Audit Committee meetings that Neil is a very independent voice”. Stakeholder interview.

“SIAP engagement reports are short, sharp and to the point”. Stakeholder interview.

“The SIAP lead is knowledgeable, experienced and briefs the committee clearly and constructively”. Stakeholder interview.

Internal audit plans and coverage

“We collectively put together the programme of internal audits and it’s a really useful management tool for us”. Stakeholder interview.

“If we have any cause for alarm, they are very responsive and will do deep dives where necessary”. Stakeholder interview.

“We get sufficient input to internal audit plans and certainly have the opportunity to ask for work”. Stakeholder interview.

“The Audit Committee is fully consulted in developing the plan and has good sight of its evolution and delivery through regular progress reports”. Stakeholder interview.

Value

“We genuinely value the service.” Stakeholder interview.

“I like the fact that they see what is happening in other organisations and share what other local authorities are doing.” Stakeholder interview.

“The staff are all very professional, approachable and are always looking for solutions to issues they come across. This gives me confidence”. Stakeholder Survey feedback.

“The SIAP team work well. I’m very happy. They represent value for money and deliver a good service.” Stakeholder interview.

“I can honestly say SIAP are the best Internal Audit provider I have ever come across.” Stakeholder interview.

“I am happy that the team do try to focus on providing added value at all times”. Stakeholder Survey feedback.

Disclaimer: This review was undertaken in September 2020 by John Chesshire, Bethan Jones and Liz Sandwith on behalf of the Chartered Institute of Internal Auditors. This report provides management and the SIAP Audit Committees with information about Internal Audit as of that date. Future changes in environmental factors and actions taken to address recommendations may have an impact upon the operation of Internal Audit in a manner that this report cannot anticipate.

Considerable professional judgment is involved in evaluating. Accordingly, it should be recognised that others could draw different conclusions. We have not re-performed the work of Internal Audit or aimed to verify their conclusions. This report is provided on the basis that it is for your information only and that it will not be quoted or referred to, in whole or part, without the prior written consent of the Chartered Institute of Internal Auditors.

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AUDIT COMMITTEE 23 OCTOBER 2020

TREASURY MANAGEMENT MID-YEAR MONITORING REPORT 2020/21

1. PURPOSE

- 1.1. New Forest District Council adopts the key recommendations of the Chartered Institute of Public Finance and Accountancy (CIPFA) Treasury Management in the Public Services: Code of Practice, last updated in 2017. The CIPFA code requires the Council to approve a treasury management strategy before the start of the year and semi-annual and annual treasury management reports.

2. SUMMARY

- 2.1. This report fulfils the Council's legal obligation under the Local Government Act 2003 to have regard to the CIPFA Code.
- 2.2. The Council's Treasury Management Strategy (TMS) for 2020/21 was approved at a meeting of the Council in February 2020. The Council has borrowed and invested sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of risk are therefore central to the Council's treasury management strategy.
- 2.3. Treasury management in the context of this report is defined as:

"The management of the organisation's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."
- 2.4. This mid-year report sets out the performance of the treasury management function for the period April – September 2020, to include the effects of the decisions taken and the transactions executed within this period.
- 2.5. Hampshire County Council's Investments & Borrowing Team has been contracted to manage the Council's treasury management balances since March 2014 but overall responsibility for treasury management remains with the Council. No treasury management activity is without risk and the effective identification and management of risk are integral to the Council's treasury management objectives.
- 2.6. All treasury activity has complied with the Council's revised Treasury Management Strategy and Investment Strategy for 2020/21, and all relevant statute, guidance and accounting standards. In addition, support in undertaking treasury management activities has been provided by the Council's treasury advisers, Arlingclose.

3. EXTERNAL CONTEXT

- 3.1. The following sections outline the key economic themes against which investment and borrowing decisions have been made so far in 2020/21.

Economic commentary

- 3.2. Coronavirus dominated the news during the period as countries around the world tried to manage the delicate balancing act of containing transmission of the virus whilst also supporting their economies. A national lockdown in the UK was followed by the gradual easing of restrictions and the introduction of various support packages, including the job retention scheme and the Eat Out to Help Out (EOHO) offer.
- 3.3. The Bank of England's (BoE) Monetary Policy Committee maintained Bank Rate at 0.1% throughout the period and increased its Quantitative Easing programme to £745 billion. It has also not ruled out the use of negative interest rates in future, which has had an impact on interest rates available in the money markets.
- 3.4. Gross Domestic Product (GDP) contracted by 19.8% in Quarter 2 according to the Office for National Statistics (ONS), pushing the annual growth rate down to -21.5%. Recent monthly estimates of GDP have shown growth recovering although output is still significantly below pre-coronavirus levels. A potential second wave of the virus and the impending end of the transition period for the UK's exit from the EU may have a further impact on GDP and the economy over the remainder of the year.
- 3.5. The headline rate of UK Consumer Price Inflation (CPI) fell to 0.2% year on year in August, significantly below the BoE's 2% target. Inflation is slightly higher at 0.5% year on year using the CPIH measure, which is preferred by the ONS and includes owner-occupied housing.
- 3.6. In the three months to July, the unemployment rate increased from 3.9% to 4.1% while wages fell in both real and nominal terms. The unemployment rate may pick up sharply in the coming months as the furlough scheme ends and the BoE has forecast unemployment could hit a peak of between 8% and 9%.

Financial markets

- 3.7. After selling off sharply in March 2020, world equity markets started recovering in April and have continued to regain value during Quarters 2 and 3. Not all sectors and geographies have rebounded to the same extent and the recovery has largely been driven by a small number of US technology stocks, while in the UK the FTSE 100 and 250 have only made up around half of their pre-crisis losses. Central bank and government stimulus packages continue to support asset prices, but volatility and uncertainty remain.
- 3.8. Ultra-low interest rates and the flight to quality continued during the period, with the yield on some shorted-dated UK government bonds turning negative and yields on longer-dated bonds remaining low.

Credit review

- 3.9. After rising sharply in late March, credit default swap (CDS) spreads slowly eased over Quarters 2 and 3 to slightly above their pre-crisis levels suggesting the pandemic has not had a significant lasting impact on confidence in UK banks across the market. That being said, Fitch downgraded the UK sovereign credit rating to AA- in March, which was followed by revising the outlook for all UK banks approved for use by the Council by Arlingclose either to negative or rating watch negative, although the long term rating for HSBC was increased. Fitch and S&P also downgraded the long-term rating for Transport for London.
- 3.10. The extent of the losses that banks and building societies will suffer as a result of the coronavirus pandemic remains uncertain but is expected to be substantial. Arlingclose have therefore conducted a stress testing exercise and in June 2020 suspended a number of UK banks and building societies from the counterparty list for unsecured deposits as a result. Arlingclose also continue to recommend a maximum duration of 35 days for investments with the remaining counterparties. Although far better capitalised than during the Great Financial Crisis there remains significant uncertainty about the impact of the pandemic, with the added unknown of what the final Brexit trade deal may look like. Arlingclose are therefore recommending a prudent approach and the institutions on Arlingclose's counterparty list remain under constant review.

4. LOCAL CONTEXT

- 4.1. At 31 March 2020 the Council's underlying need to borrow for capital purposes as measured by the Capital Financing Requirement (CFR) was £140.1m, while usable reserves and working capital which are the underlying resources available for investment were £56.8m (principal invested plus gains on investments with a variable net asset value). These factors are summarised in Table 1:

Table 1: Capital Financing Summary

	31/03/20 Balance £m
General Fund CFR	7.8
Housing Revenue Account CFR	1.9
HRA Settlement	130.4
Total CFR	140.1
Financed By:	
External Borrowing	131.2
Internal Borrowing	8.9
Total Borrowing	140.1

- 4.2. The Council's current strategy is to maintain borrowing and investments below their underlying levels, sometimes known as internal borrowing, in order to reduce risk and keep interest costs low. The treasury management position as at 30 September 2020 and the year-on-year change is shown in Table 2.

Table 2: Treasury Management Summary

	31/03/2020 Balance £m	Movement £m	30/09/2020 Balance £m	30/09/2020 Rate %
Long-term borrowing	(126.9)	0.1	(126.8)	3.3
Short-term borrowing	(4.3)	0.0	(4.3)	2.2
Total borrowing	(131.2)	0.1	(131.1)	3.3
Long-term investments	18.4	(2.9)	15.6	3.4
Short-term investments	20.0	4.5	24.5	0.6
Cash and cash equivalents	18.3	21.0	39.3	0.1
Total investments	56.8	22.6	79.4	0.9
Net borrowing	(74.4)	22.7	(51.7)	

Note: the figures in the table above at 31 March 2020 are from the balance sheet in the Council's statement of accounts, but adjusted to exclude operational cash, accrued interest and other accounting adjustments, but does include market value adjustments.

- 4.3. The reduction in net borrowing of £22.7m shown in Table 2 above reflects an increase in investment balances of £22.6m as well as a reduction in borrowing balances of £0.1m. The increase in total investments since 31 March 2020 is expected as it reflects the typical movement in the cash position that is seen by the Council through the course of a financial year and the fact that the balance at 31 March is typically the lowest of the year. In addition, the Council is currently holding around £15m of government funds in relation to the coronavirus pandemic, which are due to be returned to Central Government shortly.

5. BORROWING ACTIVITY

- 5.1. As shown in Table 2, as at 30 September 2020 the Council held £131.1m of loans with the vast majority of loans being in relation to the resettlement of the HRA in 2012/13. The mid-year treasury management borrowing position and movement since 31 March 2020 is shown in Table 3.

Table 3: Borrowing Position

	31/03/2020 Balance £m	Movement £m	30/09/2020 Balance £m	30/09/2020 Rate %	30/09/2020 WAM* years
Public Works Loan Board	(131.2)	0.1	(131.1)	3.3	15.9
Total borrowing	(131.2)	0.1	(131.1)	3.3	15.9

* Weighted average maturity

Note: the figures in the table above at 31 March 2020 are from the balance sheet in the Council's statement of accounts but adjusted to exclude accrued interest.

- 5.2. The Council's chief objective when borrowing has been to strike an appropriately low risk balance between securing low interest costs and achieving cost certainty over the period for which funds are required, with flexibility to renegotiate loans should the Council's long-term plans change being a secondary objective.

- 5.3. Short-term interest rates have remained much lower than long-term rates and the Council has therefore considered it to be more cost effective in the near term to use internal resources than to use additional borrowing.
- 5.4. With the assistance of Arlingclose, the benefits of internal borrowing were monitored regularly against the potential for incurring additional costs by deferring borrowing into future years when long-term borrowing costs may be higher.
- 5.5. During the period April to September 2020 the Council repaid £0.1m of maturing PWLB debt and did not replace this borrowing. This will reduce the future cost of interest payments on the Council's debt.

6. INVESTMENT ACTIVITY

- 6.1. The Council holds invested funds representing income received in advance of expenditure plus balances and reserves held. The Council's investment holding was £84.4m principal at 30 September 2020, which was £12.7m (17.7%) higher than the same time last year.
- 6.2. During the six month period from 1 April to 30 September 2020, the Council's investment balance ranged between £77.3m and £126.4m due to timing differences between income and expenditure. The balance was unusually high during the early part of April as government grants to address the impact of Covid-19 were received prior to being paid to local businesses.
- 6.3. Table 4 shows investment activity for the Council as at 30 September 2020 in comparison to the reported activity as at 31 March 2020. The increase in total investments since 31 March 2020 reflects the fact that the balance at 31 March is typically the lowest of the year and that the Council is currently holding around £15m of government funds in relation to the coronavirus pandemic, which are due to be returned to Central Government shortly.

Table 4: Investment Position (Treasury Investments)

Investments	31/03/2020 Balance £m	Movement £m	30/09/2020 Balance £m	30/09/2020 Rate %	30/09/2020 WAM* years
Short term Investments					
Banks and Building Societies:					
- Unsecured	4.0	4.9	8.9	0.1	0.1
- Secured	4.0	(4.0)	-	N/A	N/A
Money Market Funds	15.3	22.6	37.9	0.1	0.0
Local Authorities	9.0	6.0	15.0	0.7	0.4
Registered Providers	4.0	-	4.0	1.9	0.5
Cash Plus Funds	2.0	-	2.0	1.2	0.0
	38.3	29.5	67.8	0.3	0.1
Long term investments					
Banks and Building Societies:					
- Secured	3.0	-	3.0	0.7	2.4
Local Authorities	3.0	(3.0)	-	N/A	N/A
	6.0	(3.0)	3.0	0.7	2.4
Higher yield investments					
Pooled Property Funds**	7.6	-	7.6	4.0	N/A
Pooled Equity Funds**	3.0	-	3.0	4.2	N/A
Pooled Multi-Asset Funds**	3.0	-	3.0	4.2	N/A
	13.6	-	13.6	4.1	N/A
TOTAL INVESTMENTS	57.9	26.5	84.4	0.9	0.2

* Weighted average maturity, excluding pooled funds

** The rates provided for pooled fund investments are reflective of annualised income returns over the year to 30 September 2020.

Note: the figures in the table above at 31 March 2020 are from the balance sheet in the Council's statement of accounts but adjusted to exclude operational cash, market value adjustments and accrued interest.

- 6.4. The CIPFA Code and government guidance both require the Council to invest its funds prudently, and to have regard to the security and liquidity of its treasury investments before seeking the highest rate of return, or yield. The Council's objective when investing money is therefore to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income.
- 6.5. Security of capital has remained the Council's main investment objective. This has been maintained by following the Council's counterparty policy as set out in its Treasury Management Strategy Statement for 2020/21.
- 6.6. Counterparty credit quality has been assessed and monitored with reference to credit ratings, analysis of funding structures and susceptibility to bail-in of financial institutions, credit default swap prices, financial statements, information on potential government support and reports in the quality financial press.

- 6.7. The Council also makes use of secured investment products that provide collateral in the event that the counterparty cannot meet its obligations for repayment.
- 6.8. Over the six month period, the Council has continued to feel the effects of the Coronavirus pandemic and has experienced reducing money market rates, higher investment balances than normal due to government grant, a reduced number of suitable counterparties and a reduction in advised investment durations.
- 6.9. In light of this and the limited opportunities for investing for the longer term and within Arlingclose's advice, the Council kept more cash available at very short notice than normal. Liquid cash was diversified over several counterparties, including the Debt Management Office and Money Market Funds (MMFs) to manage both credit and liquidity risks.
- 6.10. The Council has used the Debt Management Account Deposit Facility (DMADF) frequently throughout this period as it provides a secure deposit facility which is vital during uncertain times. However, on 25 September the overnight, 1- and 2-week deposit rates on DMADF deposits dropped below zero percent to -0.03%, which discourages local authorities from using this facility for short-term cash. The Council has not used the DMADF at negative rates and has therefore maintained a positive net return.
- 6.11. The return on MMFs net of fees also fell over the six month period and for many funds net returns now range between 0% and 0.1%. In many instances, the fund management companies have temporarily lowered or waived fees to maintain a positive net return.
- 6.12. To reduce risk, 32% of the Council's internally invested cash is invested so that it is not subject to bail-in risk, as it is invested in local authorities, registered providers and secured bank bonds. Of the remaining balance, the majority is invested in overnight money market funds which are subject to reduced bail in risk.
- 6.13. Against this backdrop, the Council has sought to optimise returns commensurate with the objectives of security and liquidity, achieving an average rate of return of 0.36% on internally managed funds as at 30 September 2020 whilst also maintaining sufficient liquidity through the use of call accounts, money market funds and the DMADF.
- 6.14. The progression of credit risk and return metrics for the Council's investments managed in-house (excluding external pooled funds) are shown in the extracts from Arlingclose's quarterly investment benchmarking in Table 5. This compares the data for the quarter ended 30 June 2020 with data for the quarter ended 31 March 2020. Arlingclose's quarterly investment benchmarking at 30 September 2020 was not available in time for publication of this report but a verbal update will be provided at the meeting of the Audit Committee.

Table 5: Investment Benchmarking (excluding pooled funds)

	Credit Rating	Bail-In Exposure	Weighted Average Maturity (days)	Internal Investment Return
31/03/2020	AA	46%	159	0.85%
30/06/2020	AA-	73%	91	0.43%
Similar LAs	AA-	59%	51	0.42%
All LAs	AA-	59%	18	0.39%

- 6.15. During the three-month period from 31 March to 30 June 2020, the impact of the two Bank Rate cuts in March was felt across the money markets, which resulted in the investment return on internally managed investments in the portfolio reducing and being broadly in line with returns seen by other Arlingclose clients.
- 6.16. The Council also held increased liquidity due to money received from central government as a result of the Coronavirus pandemic and slower than originally anticipated capital programme expenditure as the Council reacted to the pandemic. This increased liquidity meant higher bail-in exposure as a greater proportion of the Council's funds were invested in money market funds, which invest in instruments that are liable to bank bail-in but which are highly diversified therefore reducing this risk.
- 6.17. The increased liquidity also required the Council to make use of bank call accounts to enable diversification between counterparties, which resulted in a reduction in credit rating from AA to AA-. This is however still a strong credit rating and the Council only invests with banks on Arlingclose's approved list of counterparties and currently only holds unsecured investments with these institutions for short durations to mitigate risk. The AA- rating is also in line with the average achieved by Arlingclose's other local authority clients.
- 6.18. In order to minimise the risk of receiving unsuitably low investment income, the Council has continued to invest a proportion of steady core balances in externally managed pooled funds as part of its higher yield strategy.
- 6.19. These pooled fund investments are likely to be more volatile than cash in the short-term but generate regular revenue income whilst also providing diversification and the potential for enhanced returns over the longer term. By holding these investments for the longer term, the Council is able to ride out periods of volatility that result in falls in value and manage the security of the Council's original investment. Investing only steady core balances also means the Council should not ever need to be a forced seller for liquidity reasons.
- 6.20. The Council's investments in pooled property, equity and multi-asset funds allow diversification into asset classes other than cash without the need to own and manage the underlying investments, with £13.6m now invested. The Council also invests a further £2m into an externally managed cash plus pooled fund, which forms part of its short-term cash portfolio.

- 6.21. These investments have no defined maturity date but are available for withdrawal after a notice period and their performance and continued suitability in meeting the Council's investment objectives is monitored regularly and discussed with Arlingclose.
- 6.22. The impact of the COVID-19 pandemic on financial markets at the end of the financial year meant that the Council's investments in these pooled funds suffered a £1.3m fall in capital value (9.82%) over the year to 31 March 2020, however such losses are only realised if the assets are sold before they have the chance to regain value.
- 6.23. Since March there has been improvement in market sentiment which is reflected in increases in capital values of the multi-asset income funds and one (of two) equity income funds in the Council's portfolio. The change in capital values of the pooled fund investments is summarised in Table 6.

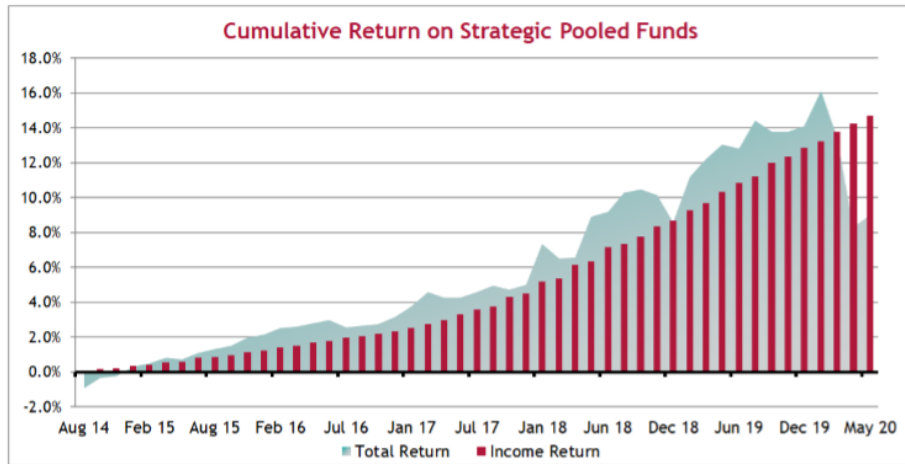
Table 6 – Pooled fund capital values

	Principal invested £m	31/03/2020 Capital value £m	Movement £m	30/09/2020 Capital value £m
Pooled property	7.6	7.5	(0.3)	7.2
Pooled equity	3.0	2.3	0.2	2.5
Pooled multi asset	3.0	2.6	0.2	2.8
Total	13.6	12.4	0.1	12.5

- 6.24. Dealing in the CCLA Local Authorities Property Fund was suspended by the fund in March 2020. The relative infrequency of property transactions as the pandemic intensified meant that it was not possible for valuers to be confident that their valuations correctly reflected prevailing conditions. To avoid material risk of disadvantage to buyers, sellers, and holders of units in the property fund, the management company was obliged to suspend transactions until the required level of certainty was re-established. The dealing suspension was lifted in September 2020. There has also been a change to redemption terms for this property fund; from September 2020 investors are now required to give at least 90 calendar days' notice for redemptions. The Lime Property Fund, in which the Council has a smaller investment, also suspended dealing for the same reasons; the dealing suspension was lifted in July 2020.
- 6.25. In 2020/21, the Council expects to receive significantly lower income from both its internally managed cash and its higher yielding portfolio than it did in previous years. This has been reflected in the Council's Emergency 2020/21 Budget, approved by the Council in September. Dividends and income paid will depend on many factors including the ongoing impact of the pandemic and the individual strategies of each pooled fund, such as their sectoral allocations and investment decisions. Equity income funds will also be affected by enforced or voluntary dividend cuts and deferrals.
- 6.26. Given the impact on capital values and income described above, the investments in pooled funds have been reviewed with Arlingclose, whose advice remains that these investments continue to be appropriate for the Council. Capital values should recover over time and in the meantime

these investments will continue to generate income returns significantly in excess of what could be achieved on traditional cash investments, to benefit the revenue budget.

- 6.27. The chart below shows the positive impact of regular income returns from these pooled funds and the positive cumulative total return (income + capital values) over time.



7. OTHER NON-TREASURY HOLDINGS AND ACTIVITY

- 7.1. The definition of investments in CIPFA's revised Treasury Management Code now covers all the financial assets of the Council as well as other non-financial assets which the Council holds primarily for financial return. This is replicated in MHCLG's Investment Guidance, in which the definition of investments is further broadened to also include all such assets held partially for financial return.
- 7.2. This could include service investments for operational and/or regeneration reasons as well as commercial investments which are made mainly for financial reasons.
- 7.3. The Council's existing non-treasury investments are listed in Table 7.

Table 7 – Non-Treasury Investments

	30/09/2020 Asset value £m	30/09/2020 Annual Rate of Return
Hythe Marina	2.70	5.82%
Saxon Inn Calmore	0.18	7.0%
Meeting House Lane	0.13	-
New Milton Health Centre	2.33	5.91%
Ampress Car Park	2.10	4.48%
The Parade Salisbury Road Totton	1.45	8.54%
1-3 Queensway New Milton	1.10	8.70%
Total Investment Properties	9.99	6.22%
Lymington Town Hall	3.00	4.67%
Hardley Industrial Estate	3.43	6.87%
Total Income Earning Properties	6.43	5.84%
Grand Total	16.42	6.08%

7.4. Two investment property purchases were made during the first half of 2020/21 pursuant to the Council's adoption of the Asset Investment Strategy in February 2017. Both are included above as they are immediately income earning (with the Rate of Return reflecting an annualised calculation). A further acquisition made in 2019/20 (Land at Crow Lane) is not shown within Table 7 as it is not currently income earning as it is a bare land site that the Council intends to develop out into an industrial park.

8. COMPLIANCE REPORT

8.1. The Council confirms compliance of all treasury management activities undertaken during the period with the CIPFA Code of Practice and the Council's approved Treasury Management Strategy.

8.2. Compliance with the authorised limit and operational boundary for external debt is demonstrated in Table 8.

Table 8: Debt Limits

	2020/21 Maximum £m	30/09/2020 Actual £m	2020/21 Operational Boundary £m	2020/21 Authorised Limit £m	Complied
Total debt	131.2	131.1	200.3	216.5	✓

8.3. Since the operational boundary is a management tool for in-year monitoring it is not significant if the operational boundary is breached on occasions due to variations in cash flow, and this is not counted as a compliance failure.

9. TREASURY MANAGEMENT INDICATORS

9.1. The Council measures and manages its exposures to treasury management risks using the following indicators.

Interest rate exposures

9.2. The following indicator shows the sensitivity of the Council's current investments and borrowing to a change in interest rates:

Table 9: Investment Rate Risk Indicator

	30 September 2020	Impact of +/-1% interest rate change
Sums subject to variable interest rates:		
Investment	£70.8m	+/- £0.7m
Borrowing	£0.0m	n/a

9.3. Fixed rate investments and borrowings are those where the rate of interest is fixed for the whole financial year. Instruments that mature during the financial year are classed as variable rate.

Maturity structure of borrowing

9.4. This indicator is set to control the Council's exposure to refinancing risk. The upper and lower limits show the maximum and minimum maturity exposure to fixed rate borrowing as agreed in the Treasury Management Strategy Statement.

Table 10: Refinancing rate risk indicator

	30/09/2020 Actual	Upper Limit	Lower Limit	Complied
Under 12 months	3%	25%	0%	✓
12 months and within 24 months	3%	25%	0%	✓
24 months and within 5 years	10%	25%	0%	✓
5 years and within 10 years	16%	25%	0%	✓
10 years and above	68%	100%	0%	✓

Principal sums invested for periods longer than a year

9.5. The purpose of this indicator is to control the Council's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the total principal sum invested to final maturities beyond the period end will be:

Table 11: Price risk indicator

	2020/21	2021/22	2022/23
Actual principal invested beyond year end	£17m	£17m	£14m
Limit on principal invested beyond year end	£40m	£40m	£40m
Complied	✓	✓	✓

9.6. The table includes investments in strategic pooled funds of £13.6m as although these can usually be redeemed at short notice, the Council intends to hold these investments for at least the medium-term.

10. OTHER

10.1. IFRS 16: The implementation of the new IFRS 16 Leases accounting standard has been delayed until 2021/22.

11. ARLINGCLOSE'S OUTLOOK FOR THE REMAINDER OF 2020/21

11.1. The medium-term global economic outlook is weak. While the strict initial lockdown restrictions have eased, the coronavirus has not been suppressed and second waves have prompted more restrictive measures on a regional and national basis. This ebb and flow of restrictions on normal activity will continue for the foreseeable future, at least until an effective vaccine is produced and importantly, distributed.

11.2. The global central bank and government responses have been significant and are in many cases on-going, maintaining more stable financial, economic and social conditions than otherwise. This has supported a sizeable economic recovery in Quarter 3.

11.3. However, the scale of the economic shock to demand, on-going social distancing measures, regional lock downs and reduced fiscal support will mean that the subsequent pace of recovery is limited. Early signs of this are already evident in UK monthly GDP and PMI data, even before the latest restrictions.

11.4. This situation will result in central banks maintaining low interest rates for the medium term. In the UK, Brexit is a further complication. Bank Rate is therefore likely to remain at low levels for a very long time, with a distinct possibility of being cut to zero. Money markets have already priced in a chance of a negative Bank Rate.

11.5. Longer-term yields will also remain depressed, anchored by low central bank policy rates, expectations for potentially even lower rates and insipid inflation expectations. There is a chance yields may follow a slightly different path in the medium term, depending on investor perceptions of growth and inflation, or if the UK leaves the EU without a deal.

11.6. Arlingclose expects Bank Rate to remain at the current 0.10% level and additional monetary loosening in the future most likely through further financial asset purchases (QE). While Arlingclose's central case for Bank Rate is no change from the current level of 0.1%, further cuts to Bank Rate to zero or even into negative territory cannot be completely ruled out.

11.7. Gilt yields are expected to remain very low in the medium term. Shorter-term gilt yields are currently negative and will remain around zero or below until either the Bank of England expressly rules out negative Bank Rate or growth/inflation prospects improve.

11.8. Downside risks remain in the near term, as the government dials down its fiscal support measures, reacts to the risk of a further escalation in infection rates and the Brexit transition period comes to an end.

	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23
Official Bank Rate													
Upside risk	0.00	0.00	0.00	0.15	0.15	0.15	0.15	0.30	0.30	0.30	0.30	0.30	0.30
Arlingclose Central Case	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
Downside risk	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50

12. CRIME AND DISORDER AND ENVIRONMENTAL IMPLICATIONS

12.1. None arising directly from this report.

13. RECOMMENDATIONS

Members are recommended to:

13.1. consider the performance of the treasury function detailed in this report.

Further information

Please contact Rob Sarfas (HCC), or Alan Bethune

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Background papers

The Prudential Code, CIPFA Guidance Notes and ODPM Investment Guidance Local Government Act 2003
 SI 2003/3146 Local Authorities (Capital Finance and Accounting) (England) Regulations 2003
 Treasury Management Strategy Report 2020/21
 Audit Committee – 24 January 2020
 Council – 24 February 2020

Treasury Management Mid-Year Monitoring Report 2019/20
 Audit Committee – 25 October 2019

Treasury Management Annual Outturn Report 2019/20
 Audit Committee – 10 July 2020

AUDIT COMMITTEE – 23 OCTOBER 2020

INSURANCE ARRANGEMENTS 2020-23 (HAMPSHIRE DISTRICT & BOROUGH COUNCILS)

1. PURPOSE

- 1.1 This report updates the Audit Committee on the outcome of the procurement for the provision of Insurance Services for New Forest District Council.

2. INTRODUCTION AND BACKGROUND

- 2.1 Ten borough and district councils in Hampshire worked collaboratively to procure insurance services during 2019/20 using an OJEU Open Procedure in accordance with the Public Contracts Regulations 2015. The cost of insurance across the 10 borough and district councils in Hampshire prior to the new contract was £4 million a year and for New Forest District Council was £653,355 for 2019/20. This report provides the Audit Committee with information regarding the tenders received and the contract that was awarded.
- 2.2 The joint tender procured through the Hampshire Insurance Forum (HIF) was successful in delivering savings of £891,000 across the collaboration with an overall reduction in cost to New Forest District Council of £23,000.

3. PROCUREMENT EXERCISE AND OUTCOME FOR NFDC

- 3.1 Fareham Borough Council led the procurement process on behalf of the HIF using its e-tendering portal. The specification of requirements, the proposed operation of service and the tender evaluation process (including criteria and weightings) were established by the HIF sub-group and Aon.
- 3.2 The HIF appointed a sub-group to coordinate the procurement of a new insurance programme. The sub-group consists of officers representing Basingstoke & Deane Borough Council, Fareham Borough Council, Gosport Borough Council, Test Valley Borough Council and Winchester City Council.
- 3.3 The HIF sought to reduce the risks of this procurement by:
- Procuring via an OJEU Regulation Open Tender.
 - Regular communication amongst HIF members and progress updates to the CFO's group.
 - Appointing an experienced broker to support the procurement process.
 - Hosting an 'Insurer Day' in September 2019; where interested insurers met the HIF sub-group and Aon to explain the collaborative approach and ensure the tender was attractive to the insurance market.
- 3.4 To encourage competitive quotes and attract specialist insurers in the market, the tender specification was split into 8 Lots. Insurers were invited to submit bids for any or all, of the Lots.
- 3.5 The quotations received were evaluated in accordance with 60%/40% price/quality weighting respectively.

- 3.6 Nine tenders were received electronically and evaluated by the HIF sub-group and Aon in accordance with the criteria set out in the invitation to tender. The tenders were received on the basis of a 3-year contract, with an option to extend for 2 years.
- 3.7 Fareham Borough Council facilitated the intention to award notification on behalf of all HIF authorities and award confirmation once the HIF members own approval processes had been finalised. An OJEU standstill period of 10 calendar days was applied before the contract was implemented. Only once implemented were HIF members able to meet the awarded insurer(s) in order to mobilise for the contract to start on 1 April 2020.
- 3.8 It was recommended by the HIF that the 3-year contract, with the option to extend for a further 2 years commencing 1 April 2020, was awarded to the following insurers:

Cover	Incumbent Insurer	Winning Tender
Lot 1 - Property	Allianz	Protector
Lot 2 - Right To Buy	Ocaso/ ZM	Protector
Lot 3 - Crime	ZM	ZM
Lot 4 - Liability	RMP	Protector
Lot 5 - Motor	RMP	Protector
Lot 6 - Engineering	ZM	ZM
Lot 7 - Personal Accident/Travel	ZM	ZM
Lot 8 - Terrorism	AUM	RMP

- 3.9. The results were positive for all the HIF members with the overall premium reducing from £3.994M to £3.103M; a reduction of £891k. The New Forest District Council premium reduced by £23k. No material changes to its cover arrangements were proposed nor had the Council had any significant changes in circumstances that would have warranted a large share of the overall saving.
- 3.10 The performance of the arrangements will be monitored to ensure ongoing savings and the avoidance of premium increases. The Council will continue to focus its efforts on reducing loss frequency and costs through good risk management.

4. CYBER INSURANCE

- 4.1 From 1 April 2020 NFDC have incepted a Cyber Insurance policy with Beazley, who are one of the most experienced cyber insurers in the market. NFDC has access to a 24/7 helpline where all claim services are accessible. Our cover includes for example Cyber Extortion and Ransomware. There have been no instances to date that have required a claim against the policy, but since this policy began our ICT team have been using the Beazley Online Risk Management Guidance to ensure that NFDC policies and procedures are in line with industry best practice.

5. FINANCIAL IMPLICATIONS

- 5.1 The overall 2020/21 Insurance Premium for New Forest District Council as procured through the HIF is £630,327. This is a reduction of £23,000 per annum on the previous overall premium. This saving has been utilised towards the cost of the cyber insurance policy.

6. ENVIRONMENTAL MATTERS AND EQUALITY & DIVERSITY IMPLICATIONS

6.1 There are no direct environmental or equality and diversity implications arising from this report.

7. RECOMMENDATIONS

7.1 Audit Committee note the contents of this report.

For further information

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Audit Committee Draft Work Plan 2020/21

DATE	WORK / REPORTS
29 January 2021	Internal Audit Progress Report 2020/21 Internal Audit Plan 2021/22 External Audit Planning Report for Year Ended 31 March 2021 Treasury Management Strategy 2021/22 and Treasury Management Indicators Investment Strategy 2021/22 Risk Management and Insurance Update Regulation of Investigatory Powers Act 2000 Policy Annual Audit Letter Overview of Workflow and Approval Levels
26 March 2021	Internal Audit Progress Report 2020/21 Internal Audit Charter 2021/22 Internal Audit Plan 2021/22 Bad Debt/Write-offs

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