

FAREHAM

BOROUGH COUNCIL

AGENDA

AUDIT AND GOVERNANCE COMMITTEE

Date: Monday, 23 November 2020

Time: 6.00 pm

Venue: Microsoft Teams Virtual Meeting

Members:

Councillor J E Butts (Chairman)

Councillor S D Martin (Vice-Chairman)

Councillors S Cunningham

P J Davies

T Davies

Mrs T L Ellis

J G Kelly

Deputies: I Bastable

J S Forrest

Mrs C Heneghan



1. Apologies

2. Minutes (Pages 5 - 10)

To confirm as a correct record the Minutes of the Audit and Governance Committee meeting held on the 19 October 2020.

3. Chairman's Announcements

4. Declarations of Interest and Disclosures of Advice or Directions

To receive any declarations of interest from members in accordance with Standing Orders and the Council's Code of Conduct.

5. Deputations

To receive any deputations of which notice has been lodged.

6. Annual Ombudsman Reports and Overview of Complaints Against Members (Pages 11 - 20)

To consider an annual report by the Director of Leisure and Community giving an Overview of the Complaints against the Council in 2019/20.

7. Partnership Governance Report (Pages 21 - 44)

To consider the first annual report by the Director of Leisure and Community giving assurance on the governance arrangements for the Council's significant partnerships.

8. External Audit Results Report (Pages 45 - 100)

To consider a report from the Deputy Chief Executive Officer summarising the findings of the External Auditors from their audit of the 2019/20 Statement of Accounts.

9. Statement of Accounts (Pages 101 - 206)

To consider a report by the Deputy Chief Executive Officer on the draft Statement of Accounts for 2019/20.

10. Treasury Management Progress Report (Pages 207 - 240)

To consider a report by the Deputy Chief Executive Officer on the Treasury Management Strategy and Indicators midway through 2020/21.

11. Annual Constitution Review (Pages 241 - 246)

To consider an annual report by the Monitoring Officer reviewing amendments and updates to the Council's Constitution over the past twelve months.

12. Internal Audit Progress Report (Pages 247 - 256)

To consider a report by the Head of Finance and Audit on the findings arising from the latest internal audit work to be finalised and progress being made on delivering the internal audit plan for 2020/21.

13. Review of Work Programme (Pages 257 - 260)

To consider a report by the Head of Finance and Audit on a review of the Committee's Work Programme for 2020/21.



P GRIMWOOD
Chief Executive Officer

Civic Offices
www.fareham.gov.uk
12 November 2020

**For further information please contact:
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FAREHAM

BOROUGH COUNCIL

Minutes of the Audit and Governance Committee (to be confirmed at the next meeting)

Date: Monday, 19 October 2020

Venue: Microsoft Teams Virtual Meeting

PRESENT:

Councillor J E Butts (Chairman)

Councillor S D Martin (Vice-Chairman)

Councillors: S Cunningham, P J Davies, T Davies, Mrs T L Ellis and
J G Kelly

**Also
Present:**



1. APOLOGIES

There were no apologies of absence received at the meeting.

2. CHAIRMAN'S ANNOUNCEMENTS

The Chairman made the following announcement: -

I would like to welcome back the Committee as we have been on hold for a number of months to allow the Council and its officers to respond to the initial phase of the pandemic. We have had to cancel 2 of our meetings: one in March, which had been scheduled during the first week of lock down and another one in July.

We will be talking about the work programme for the Committee in item 6 of the agenda but I want to assure members that the majority of the items we have missed are being picked up in future meetings of the Committee. We are also not in danger of missing any statutory deadlines, as many of these have been adjusted by the government in specific Covid 19 legislation.

However, it does mean that the agenda for the next 2 meetings are longer than usual and I welcome your forbearance in making sure that we continue to carry out the full functions of the Committee.

I would also like to highlight that one of the roles of the Committee is to review the Council's risk management arrangements and the pandemic is an extreme example of risk management in practice. As you know, management have been keeping us up to date with how they have been responding to the pandemic and I encourage you to keep abreast of all the Council's individual recovery plans as they get discussed at the Executive Committee. You will also see when the Statement of Accounts are presented at the next Committee meeting, that there is a detailed section contained in the Narrative Report explaining how the Council has been managing the impacts of the pandemic on the Council's financial position.

If there are no immediate comments on this, we will continue with today's agenda items.

3. MINUTES

RESOLVED that the Minutes of the Audit and Governance Committee meeting held on the 25 November 2019 be confirmed and signed as correct record.

4. DECLARATIONS OF INTEREST AND DISCLOSURES OF ADVICE OR DIRECTIONS

There were no declarations of interest made at this meeting.

5. DEPUTATIONS

There were no deputations made at this meeting.

6. ANNUAL REPORT OF THE AUDIT AND GOVERNANCE COMMITTEE

The Committee considered a report by the Head of Finance and Audit on the Annual Report of the Audit and Governance Committee.

RESOLVED that the Audit and Governance Committee: -

- (a) note the contents of the report; and
- (b) submit the revised work programme for 2020/21, as set out in Appendix C, to Council for endorsement.

7. EXTERNAL AUDITS ANNUAL CERTIFICATION REPORT

The Committee considered a report from the Head of Housing and Benefits on the findings from the 2018/19 certification work carried out by the External Auditors, KPMG.

RESOLVED that the Audit and Governance Committee: -

- (a) considered the findings of the Annual Certification Report 2018/19 submitted to the Department for Work and Pensions by the Council's external auditors; and
- (b) commented on the findings as appropriate.

8. COUNTER FRAUD ANNUAL REPORT

The Committee considered the Annual Counter Fraud Report by the Head of Finance and Audit.

Members complimented the officers involved in the administration of the Government's various Business Grants Schemes. They also noted that officers were building on the experience gained and the lessons learnt from past Schemes, as new Covid-19 Support Schemes are launched by the Government. The Head of Finance and Audit confirmed that further data in relation to the fraud investigations carried out as a result of the Schemes would be provided in next year's Counter Fraud Report and statistics.

RESOLVED that the Audit and Governance Committee note the contents of the report.

9. EXTERNAL AUDITS ANNUAL PLAN AND FEE

The Committee considered a report by the Deputy Chief Executive Officer on the External Auditor's Annual Plan and Fee for the 2019/20 audit (carried out in 2020/21).

RESOLVED that the Audit and Governance Committee: -

- (a) approved the 2019/20 Audit Plan at appendix A to the report; and
- (b) approved the update attached at appendix B to the report.

10. FIRST YEAR REVIEW OF THE NEW PROCUREMENT AND CONTRACT PROCEDURE RULES

The Committee considered a report from the Head of Finance and Audit and Head of Democratic Services on the first annual review of the new Procurement and Contract Procedure Rules.

RESOLVED that the Audit and Governance Committee note the findings from the first-year review of the new Procurement and Contract Procedure Rules, as a source of assurance on the effectiveness of the procurement internal controls that have been adopted.

11. HEAD OF AUDITS ANNUAL OPINION 2019/20

The Committee considered a report by the Head of Finance and Audit on her Annual Opinion 2019/20.

RESOLVED that the Audit and Governance Committee note the report as a source of evidence for 2019/20 Annual Governance Statement.

12. ANNUAL GOVERNANCE STATEMENT

The Committee considered a report by the Deputy Chief Executive Officer on the 2019/20 Annual Governance Statement.

Members of the Committee requested that an additional paragraph be added to the Annual Governance Statement, within the Community Communication section to highlight the Council's proactive role in seeking ways to consult with harder to reach residents who are not online or who may find it difficult to get to the Community Action Team meetings.

RESOLVED that the Audit and Governance Committee: -

- (a) approve the Annual Governance Statement for 2019/20 as set out at appendix C to the report; and
- (a) identified that the addition of a paragraph be added to the Annual Governance Statement, within the Community Communication section to highlight the Council's proactive role in seeking ways to consult with the harder to reach residents.

13. INTERNAL AUDIT ANNUAL PLAN 2020/21

The Committee considered a report by the Head of Finance and Audit on the Internal Audit Annual Plan for 2020/21.

RESOLVED that the Audit and Governance Committee approved the draft Internal Annual Audit Plan for 2020/21 as attached at Appendix A to the report.

14. INTERNAL AUDIT PROGRESS REPORT

The Committee considered the latest Internal Audit Progress Report by the Head of Finance and Audit.

RESOLVED that the Audit and Governance Committee: -

- (a) noted the progress and findings arising from the Internal Audit work;
and
- (b) approved the close down of the oldest audits of Contract Completion and Leasehold Charges with the issues to be picked up in other areas of work.

(The meeting started at 6.00 pm
and ended at 7.35 pm).

FAREHAM

BOROUGH COUNCIL

Report to Audit and Governance Committee

Date: 23 November 2020

Report of: Director of Leisure and Community

Subject: Annual Ombudsman Reports and Overview of Complaints Against Members

SUMMARY

This report informs members of the number of complaints made to the Council via the Local Government and Social Care Ombudsman, the Housing Ombudsman Service and any complaints in respect of breaches of the Code of Conduct for Members for the year up to 31 March 2020.

The Audit and Governance Committee's areas of responsibility for Standards and Ethics include: -

- a) Receive, consider and, where necessary, act on reports, guidance and advice from the Council's Monitoring Officer and the Local Government Ombudsman.*
- b) Consider complaints against members' conduct and assess allegations of breaches of the Code of Conduct for Members to determine such complaints*

RECOMMENDATION

It is recommended that the Audit and Governance Committee notes the contents of the report.

INTRODUCTION

1. One of the functions of the Audit and Governance Committee, set out in the Council's Constitution, is to advise on an internal framework of standards of conduct that should be followed by members and officers. To assist the Committee in carrying out this role, it is considered helpful to provide information concerning complaints made to, or about, the Council, its members and officers.
2. Many matters which could be termed as complaints might be better termed as service requests, and others are dealt with by the relevant departments as part of their normal duties (e.g. a missed refuse bin). Such requests are not covered by this report.
3. Where a matter has not been resolved straight away, the Council's corporate complaints procedure is followed, and the matter is dealt with as a formal complaint. The procedure applies to most complaints, but there are some cases which are treated in a different way. The Council advises the complainant if this is the case.
4. The formal complaints procedure is a two-stage process. Under Stage 1, the Head of Service in the department responsible will investigate the complaint. If the matter remains unresolved it will proceed to Stage 2 where the Director of the department responsible will review the complaint.
5. A complainant who is still not satisfied with the Council's explanation or resolution, after both stages of the complaints process have been followed, has the right to contact the Local Government and Social Care Ombudsman (LGSCO). Such cases are considered in this report together with the Ombudsman's annual letter.
6. In addition, tenants and leaseholders of housing associations and local authorities can contact the Housing Ombudsman Service, who will also investigate housing complaints that fall within their jurisdiction under the Housing Act 1996.
7. Complaints about the conduct of Members which involve possible breaches of the Council's Code of Conduct for Members are not dealt with under the Council's formal complaints procedure. Since the implementation of the Localism Act the Members' standards responsibility became the responsibility of the Audit and Governance Committee and its Standards Sub Committee.

COMPLAINTS TO THE LOCAL GOVERNMENT AND SOCIAL CARE OMBUDSMAN (LGSCO) AND THE HOUSING OMBUDSMAN SERVICE

8. The LGSCO's annual review letter, Appendix A, shows that no complaints were upheld against the Council in the last financial year.
9. The Housing Ombudsman Service identified service failure in respect of two complaints they had received during 2019/20. An order was therefore made to the Council for each, setting out the remedies that the Council was required to

implement to put matters right.

ENQUIRIES AND COMPLAINTS RECEIVED

10. In 2019/20 the LGSCO received a total of 13 complaints about the Council and made 11 decisions. Cases are not always received and decided within the same financial year, which explains the discrepancy between the figures; the LGSCO uses the received date and decision date to determine the year for each. In 2018/19 there were 8 complaints and 11 decisions. In 2019/20, 11 of the complaints received were decided within the same year, with the remaining 2 awaiting decision in 2020/21.
11. The complaints received by the LGSCO related to several different service areas, which are summarised below. The titles are determined by the LGSCO so do not directly correlate with the services delivered by the Council:
 - (a) 6 for Planning and Development
 - (b) 2 for Benefits and Tax
 - (c) 2 for Housing
 - (d) 1 for Corporate and Other Services
 - (e) 1 for Environmental Services and Public Protection and Regulation
 - (f) 1 – Null (there was insufficient information to determine which service the complaint related to)
12. The points below provide details of the outcome of the 11 decisions made by the LGSCO in 2019/20:
 - (a) 5 referred back for local resolution – the LGSCO found the complaint was referred to them too early and hadn't been actioned through the Council's complaints procedure. No further information is available on these as we are reliant upon the complainant contacting the relevant department with their complaint directly.
 - (b) 5 closed after initial enquiries – the LGSCO considered the complaint but decided against completing a full investigation.
 - (c) 1 incomplete/invalid – there was insufficient information for the LGSCO to proceed. No further information about this complaint is available.
13. Of the 13 complaints received and 11 decisions made in 2019/20, no complaints resulted in the LGSCO carrying out a detailed investigation, which resulted in no complaints being upheld against Fareham Borough Council in 2019/20. There were therefore no remedies that the Council needed to implement.
14. Two of the complaints received towards the end of year 2019/20 were not decided during the same year, so the decisions for these will be included in the 2020/21 report.
15. In addition to those complaints and enquiries received by the Local Government and Social Care Ombudsman, tenants and leaseholders of

housing associations and local authorities can contact the Housing Ombudsman Service, who will investigate housing complaints that fall within their jurisdiction. Two complaints about Fareham Borough Council were received by the Housing Ombudsman Service during year 2019/20.

16. The two complaints received by the Housing Ombudsman Service during 2019/20 were determined within the same year, with detailed investigations being completed. In both cases, the Housing Ombudsman determined that there was service failure in how the Council handled the tenants' complaints. The Council was ordered to make a payment to each of the complainants in redress for the service failures identified in the investigations.

PERFORMANCE OF HAMPSHIRE DISTRICT COUNCILS

17. For the year ended 31 March 2020, the LGSCO received 140 complaints and enquiries in respect of Hampshire District Councils, including Fareham Borough Council. This is an increase on 134 complaints received during the previous year. The lowest number of complaints and enquiries was 3 received for Rushmoor Borough Council. Eastleigh Borough Council received the highest number of complaints and enquiries, with a total of 24. Complaints and enquiries relating to Planning and Development were the most frequent type with 45, and Environmental Services, Public Protection and Regulation made up 32 of the complaints across Hampshire District Councils.
18. For the year ended 31 March 2020, the LGSCO made a total of 141 decisions in respect of Hampshire District Councils, including Fareham Borough Council. Gosport Borough Council had the lowest number of decisions, with a total of 4. Eastleigh Borough Council received the highest number of decisions as well as having the highest number of decisions upheld, with 3 out of 24 decisions.
19. Fareham Borough Council was one of 6 district Councils in Hampshire to receive no upheld decisions in 2019/20. Fareham Borough Council was the only district council to have no detailed complaint investigations during 2019/20.
20. No information is available from the Housing Ombudsman Service regarding the number of complaints and enquiries received in respect of other Hampshire District Councils.

COMPLAINTS IN RESPECT OF BREACHES OF THE MEMBERS CODE OF CONDUCT

21. The Council has a duty to make arrangements to receive and consider complaints made against Councillors in Fareham. The responsibility for carrying out this function lies with the Council's Monitoring Officer.
22. Complaints can be received in writing, via email or by completing an online complaint form that is available on the Council's website. All complaints are taken seriously and are recorded and investigated by the Monitoring Officer,

who evaluates each one against the code of conduct.

23. For the period 1 April 2019 to 31 March 2020, seven formal complaints against members were received by the Monitoring Officer, the same number of complaints as the previous year. All of these were resolved at an early stage of the complaints procedure as it was established that no breach of the code of conduct had occurred. One of these cases was referred to the Local Government and Social Care Ombudsman by the complainant, who was unhappy about the way the Council had considered the complaint. The Ombudsman decided not to investigate as they were unlikely to find fault in the Council's actions. The Ombudsman concluded that the correct procedure was followed, and the Monitoring Officer was entitled to make the decision that was ultimately made.

RISK ASSESSMENT

24. There are no significant risk considerations in relation to this report.

CONCLUSION

25. Whilst no complaints were upheld by the LGSCO, the Housing Ombudsman Service determined that there was service failure in respect of two complaints received during 2019/20, resulting in remedy orders being issued to the Council.

26. There have been no reports, guidance or advice from the Council's Monitoring Officer or the Local Government and Social Care Ombudsman for the Committee to consider.

27. There have been no breaches of the Code of Conduct for the Committee to consider.

28. The overall level of complaints to the Local Government and Social Care Ombudsman, the Housing Ombudsman Service and complaints about Councillors are in line with recent trends and the Committee is recommended to note the contents of the report.

Appendices: **Appendix A – LGSCO Annual Review letter**

Background Papers:

None

Reference Papers:

None

Enquiries:

For further information on this report please contact Annette Rickman, Customer Service Manager (Ext. 4418).

22 July 2020

By email

Mr Grimwood
Chief Executive
Fareham Borough Council

Dear Mr Grimwood

Annual Review letter 2020

I write to you with our annual summary of statistics on the decisions made by the Local Government and Social Care Ombudsman about your authority for the year ending 31 March 2020. Given the exceptional pressures under which local authorities have been working over recent months, I thought carefully about whether it was still appropriate to send you this annual update. However, now, more than ever, I believe that it is essential that the public experience of local services is at the heart of our thinking. So, I hope that this feedback, which provides unique insight into the lived experience of your Council's services, will be useful as you continue to deal with the current situation and plan for the future.

Complaint statistics

This year, we continue to place our focus on the outcomes of complaints and what can be learned from them. We want to provide you with the most insightful information we can and have made several changes over recent years to improve the data we capture and report. We focus our statistics on these three key areas:

Complaints upheld - We uphold complaints when we find some form of fault in an authority's actions, including where the authority accepted fault before we investigated. A focus on how often things go wrong, rather than simple volumes of complaints provides a clearer indicator of performance.

Compliance with recommendations - We recommend ways for authorities to put things right when faults have caused injustice. Our recommendations try to put people back in the position they were before the fault and we monitor authorities to ensure they comply with our recommendations. Failure to comply with our recommendations is rare. An authority with a compliance rate below 100% should scrutinise those complaints where it failed to comply and identify any learning.

Satisfactory remedies provided by the authority - We want to encourage the early resolution of complaints and to credit authorities that have a positive and open approach to

resolving complaints. We recognise cases where an authority has taken steps to put things right before the complaint came to us. The authority upheld the complaint and we agreed with how it offered to put things right.

Finally, we compare the three key annual statistics for your authority with similar types of authorities to work out an average level of performance. We do this for County Councils, District Councils, Metropolitan Boroughs, Unitary Councils, and London Boroughs.

This data will be uploaded to our interactive map, [Your council's performance](#), along with a copy of this letter on 29 July 2020, and our Review of Local Government Complaints. For further information on how to interpret our statistics, please visit our [website](#).

Resources to help you get it right

There are a range of resources available that can support you to place the learning from complaints, about your authority and others, at the heart of your system of corporate governance. [Your council's performance](#) launched last year and puts our data and information about councils in one place. Again, the emphasis is on learning, not numbers. You can find the decisions we have made, public reports we have issued, and the service improvements your Council has agreed to make as a result of our investigations, as well as previous annual review letters.

I would encourage you to share the tool with colleagues and elected members; the information can provide valuable insights into service areas, early warning signs of problems and is a key source of information for governance, audit, risk and scrutiny functions.

Earlier this year, we held our link officer seminars in London, Bristol, Leeds and Birmingham. Attended by 178 delegates from 143 local authorities, we focused on maximising the impact of complaints, making sure the right person is involved with complaints at the right time, and how to overcome common challenges.

We have a well-established and successful training programme supporting local authorities and independent care providers to help improve local complaint handling. During the year, we delivered 118 courses, training more than 1,400 people. This is 47 more courses than we delivered last year and included more training to adult social care providers than ever before. To find out more visit www.lgo.org.uk/training.

Yours sincerely,



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

Complaints upheld

The Ombudsman carried out no detailed investigations during this period

Compliance with Ombudsman recommendations

No recommendations were due for compliance in this period

Satisfactory remedies provided by the authority

The Ombudsman did not uphold any detailed investigations during this period

FAREHAM

BOROUGH COUNCIL

Report to Audit and Governance Committee

Date: 23 November 2020

Report of: Director of Leisure and Community

Subject: PARTNERSHIP GOVERNANCE REPORT

SUMMARY

This report provides members of the Committee with an overview of the governance arrangements in place for any partnerships that Fareham Borough Council is part of.

The Audit and Governance Committee's areas of responsibility for partnerships are to review the governance and assurance arrangements for significant partnerships or collaborations.

RECOMMENDATION

It is recommended that the Audit and Governance Committee: -

- a) notes the contents of the report;
- b) requests further information or clarification on any Significant Partnerships where members have concerns over the governance arrangements in place;
and
- c) receives an annual update as a mechanism for ensuring partnerships have appropriate governance measures in place.

INTRODUCTION

1. The Chartered Institute of Public Finance and Accountancy (CIPFA) Position Statement: Audit Committees in Local Authorities and Police (2018) sets out CIPFA's view on the role and functions of an Audit Committee. This states: "Audit committees are a key component of an authority's governance framework. Their function is to provide an independent and high-level resource to support good governance and strong public financial management."
2. As part of that governance framework, the Committee should "consider the effectiveness of the authority's risk management arrangements and the control environment, reviewing the risk profile of the organisation and assurances that action is being taken on risk related issues, including partnerships and collaborations with other organisations."
3. This report details the current partnerships that the Council is a part of and provides information regarding the governance arrangements for each partnership, allowing the committee to discharge its responsibility as detailed above.

PARTNERSHIPS

4. An annual report by the Customer Service Manager is reported to the Chief Executive's Management Team (CXMT). The Council's partnerships are categorised as either 'Significant' or 'Less Significant'. The Council's definition of a significant partnership is a partnership that:
 - i. is a legal requirement or based on statutory guidance; or
 - ii. commissions or delivers activities at a borough wide or local level that contribute substantially towards the Corporate Strategy 2017-2023 outcomes; and
 - iii. there is a significant risk to the Council if there is under-performance in this area.
5. CXMT has responsibility for identifying which partnerships are significant and when a partnership has changed from significant to less significant.
6. The annual report to CXMT in September 2020 identified 10 significant and 4 less significant partnerships.
7. The Council did not enter into any new partnerships during 2019/20.
8. No partnerships were reclassified as significant/less significant during 2019/20.
9. No partnerships ended during 2019/20.

SIGNIFICANT PARTNERSHIPS

10. Each Significant Partnership has a key officer assigned to it. The report to CXMT includes details from the key officer involved as to how the partnership

has performed in the last year, including any issues and key achievements. The key officer for each partnership also provides a Red, Amber or Green rating (RAG rating) for each partnership:

Red – The partnership is not performing

Amber – The partnership needs to improve its performance

Green – The partnership is progressing well

11. The performance for each partnership is discussed, scrutinised and challenged at CXMT. The annual review of Significant Partnerships report can be found as Appendix A, which has been taken directly from the report to CXMT.

12. Where a rating of Amber or Red has been given, officers have been asked to provide further information on any steps being taken to address underperformance, details of which are included within the narrative of Appendix A. The following partnerships were rated as Amber or Red:

Project Integra - Red

13. A summary of the results can be found below:

Red	Amber	Green	Total
1 (10%)	0 (0%)	9 (90%)	10

14. In addition to the annual report to CXMT, key officers were asked to provide additional information as to the governance arrangements surrounding the partnership.

15. Consideration was given to the Council's Partnership Governance Framework which requires all significant partnerships to demonstrate the following arrangements:

- Procedures for dealing with conflicts of interest
- Annual review of membership and opportunity to select a chairman
- Risk management arrangements
- Performance management framework with measurable outcomes
- Consultation with the local community and complaints procedures.

16. Responses to governance questions can be found at Appendix B.

17. Appendix B is presented as a one-off report to Members. Should a new partnership occur or there be significant changes to a partnership, updated details will be brought to Member's attention within the next annual report.

LESS SIGNIFICANT PARTNERSHIPS

18. The annual review of Less Significant Partnerships report can be found at Appendix C, which has been taken directly from the report to CXMT. Each Less Significant Partnership has also been given a RAG rating, as detailed within the Appendix. It also includes a summary of any issues and achievements and notes whether a partnership agreement is in place. No partnerships were rated as Amber or Red.

RISK ASSESSMENT

19. There are no risks associated with this report.

CONCLUSION

20. The Council has robust partnership arrangements in place for its fourteen partnerships, and governance arrangements are in place for all Significant Partnerships. Regular monitoring of each partnership takes place and an overview report is presented to the Chief Executive's Management Team on an annual basis. Arrangements are in place for Members to request further information or clarification on any Significant Partnerships where there are concerns or queries regarding the governance arrangements in place.

Appendices:

Appendix A – CXMT annual review of Significant Partnership performance report (CONFIDENTIAL)

Appendix B – Significant Partnerships Governance

Appendix C – CXMT annual review of Less Significant Partnership performance report

Background Papers: None

Reference Papers: CXMT Annual Review of Partnerships 2019/20
The Chartered Institute of Public Finance and Accountancy (CIPFA) Position Statement: Audit Committees in Local Authorities and Police (2018)

Enquiries:

For further information on this report please contact: Lindsey Ansell (Ext 4567).

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

Document is Restricted

Appendix B – Significant Partnership Governance

Eastern Solent Coastal Partnership
Key Officer: Richard Jolley (Director of Planning and Regeneration)
Type of Partnership: Public to Public
Partners: Portsmouth City Council, Havant Borough Council and Gosport Borough Council
Officer Time (Estimated) committed to management of the Partnership
Approximately 60 hours per year by the Director of Planning and Regeneration, with other FBC internal support from Finance and Audit approximately 25 hours per year.
Does the Partnership have a Terms of Reference or agreement? When was it last reviewed?
Originally formed in 2012, an updated partnership 'shared service' agreement was signed in 2020.
Officer Involvement in the Partnership
Director of Planning and Regeneration represents FBC on the Client Manager Board that oversees that governance of the Partnership, agreeing budgets and priorities. Other input as appropriate and as required from FBC Finance, Procurement, Audit and Communications.
Member involvement in the Partnership
A Member board is in place which meets at least biannually. The board is made up of Cabinet or Portfolio leads from each partner authority and although non-decision making, they are briefed on the budget, staff changes and the ongoing work of the partnership. The Portfolio Holder, Planning and Development Panel and Executive receive briefing and papers from the Partnership as appropriate on business relating to the FBC coastline.
Are there any other governance arrangements in place? (e.g. risk registers, financial protocols, committees, boards, public consultation or feedback)
The Partnership is governed by a Client Manager Board for setting budgets and agreeing priorities; FBC has a 14% share. The Partnership agreement (schedule 1) also contains a financial protocol. The Partnership has a risk register. The Partnership produces reports to measure progress with the most recent edition available online https://online.flipbuilder.com/bfwa/jjrf/mobile/index.html . The Partnership receives an annual financial audit from Portsmouth City Council and Client Manager Board can also determine to carry out a more general service audit. Executive reports are produced as appropriate to FBC coastal initiatives and general progress reports has been undertaken through the Planning and Development Panel when requested. Public consultation events are also arranged in line with project deliverables.
Is the partnership itself or any of the partners subject to any external assurances?
The accounts of the partnership are produced and audited by Portsmouth City Council and they have been requested to complete the financial audits up to 2019/20. Any projects that benefit from Grant Aid are subject to scrutiny from the Environment Agency and potentially external audit.

Fareham Community Safety Partnership
Key Officer: Narinder Bains (Community Safety Manager)
Type of Partnership: Public to Public
Partners: Hampshire County Council, Hampshire Fire and Rescue, Hampshire Police, National Probation Service, CCG and others.
Officer Time (Estimated) committed to management of the Partnership
Community Safety Manager's entire role facilitates and delivers the objectives of the Community Safety Partnership.
Does the Partnership have a Terms of Reference or agreement? When was it last reviewed?
Yes, reviewed in 2018.
Officer Involvement in the Partnership
Community Safety Manager and Democratic Services.
Member involvement in the Partnership
A Member is currently the Chairman of the partnership board which meets at least annually. Elements of the work of the partnership are brought to the Health and Public Protection Panel.
Are there any other governance arrangements in place? (e.g. risk registers, financial protocols, committees, boards, public consultation or feedback)
No further internal governance.
Is the partnership itself or any of the partners subject to any external assurances?
Partners are subject to external assurances: Police - Annual Police effectiveness, efficiency and legitimacy (PEEL) assessment (2018/19 rated Good in the three areas reviewed, reducing crime, operating efficiently, treating the public and workforce legitimately) Hampshire County Council - S.11 Audit County Strategy Group and Prevent Board

Fareham, Gosport and Portsmouth Building Control Partnership
Key Officer: John Shaw (Head of Building Control)
Type of Partnership: Public to Public
Partners: Portsmouth City Council and Gosport Borough Council
Officer Time (Estimated) committed to management of the Partnership
The FBC Client Manager, Director of Planning and Regeneration, estimates approximately 2 hours per week.
Does the Partnership have a Terms of Reference or agreement? When was it last reviewed?
Yes, originally signed in 2002, it was amended in 2016 to reflect that Portsmouth City Council had joined the partnership. The agreement is currently under review to reflect a new financial management system.
Officer Involvement in the Partnership
The Director of Planning and Regeneration is the FBC Client Manager for the partnership and FBC are the host authority for employment of all staff. FBC provides HR, payroll, finance, ICT and main officer accommodation for the partnership.
Member involvement in the Partnership
A member from FBC sits on the Partnership Panel which meets at least twice a year.
Are there any other governance arrangements in place? (e.g. risk registers, financial protocols, committees, boards, public consultation or feedback)
All governance arrangements are detailed in the legal agreement and memorandum of understanding signed by all three authorities.
Is the partnership itself or any of the partners subject to any external assurances?
The Partnership is registered as a surveying practice with the Royal Institute of Chartered Surveyors (RICS) and is governed by their ethical and practice standards detailed in the RICS Code of Conduct. The Partnership also operates an ISO 9001 Quality Management system which is subject to a biannual audit by the BSI. Formal auditing of the Partnership is now the responsibility of Portsmouth City Council.

Fareham and Gosport CCTV Partnership
Key Officer: Sarah Robinson (Director of Support Services) and Mark Adams (CCTV Services Officer)
Type of Partnership: Public to Public
Partners: Gosport Borough Council
Officer Time (Estimated) committed to management of the Partnership
15 hours per week.
Does the Partnership have a Terms of Reference or agreement? When was it last reviewed?
Yes, the latest version is dated October 2019.
Officer Involvement in the Partnership
CCTV Services Officer attends meetings with contractors and monitors performance. Also carries out audits at control room and ensures compliance with legislation. The officer presents reports at partnership meetings and also processes any requests for footage from other agencies and FOI requests.
Member involvement in the Partnership
FBC has a nominated Member that attends partnership meetings. Meetings cover various aspects such as the future of the partnership, successes, an annual review as well as supplier performance.
Are there any other governance arrangements in place? (e.g. risk registers, financial protocols, committees, boards, public consultation or feedback)
The Partnership meets no less than six monthly and may call a special meeting at any time. Minutes are required to be kept of all proceedings at meetings and any sub-groups. A risk register is also kept along with business continuity plans. The partnership reviews the Terms of Reference on an annual basis.
Is the partnership itself or any of the partners subject to any external assurances?
The service was subject to an internal audit as part of the 2019/20 Gosport Borough Council Audit Plan.

Fareham and Gosport Environmental Health Partnership
Key Officer: Ian Rickman (Head of Environmental Health)
Type of Partnership: Public to Public
Partners: Gosport Borough Council
Officer Time (Estimated) committed to management of the Partnership
10% of the Head of Environmental Health's time is spent managing the partnership.
Does the Partnership have a Terms of Reference or agreement? When was it last reviewed?
A Service Level Agreement was signed in 2015 and is in the process of being reviewed.
Officer Involvement in the Partnership
The Head of Environmental Health manages the day to day operation of the partnership, which is overseen by the Director of Leisure and Community. Both attend the Partnership Panel meetings mentioned below.
Member involvement in the Partnership
A Partnership Panel meets approximately twice a year and is attended by a Member from Fareham Borough Council. An annual update on the progress of the partnership is provided by Ian Rickman to the Licensing Committee/Health and Public Protection Scrutiny Panel.
Are there any other governance arrangements in place? (e.g. risk registers, financial protocols, committees, boards, public consultation or feedback)
Management, financial, audit and performance arrangements are all detailed in the partnership agreement.
Is the partnership itself or any of the partners subject to any external assurances?
Audit is undertaken in conjunction with Portsmouth City Council. Internal audits are also carried out on specific services delivered by the partnership, either by the Fareham Borough Council or Gosport Borough Council audit teams.

Internal Audit Partnership
Key Officer: Elaine Hammell (Head of Finance and Audit)
Type of Partnership: Public to Public
Partners: Portsmouth City Council
Officer Time (Estimated) committed to management of the Partnership
2 hours per month.
Does the Partnership have a Terms of Reference or agreement? When was it last reviewed?
Yes, a 5-year agreement was signed in 2017. This expires on 31 st March 2022.
Officer Involvement in the Partnership
The Head of Finance and Audit is in regular contact with the partners and has formal progress meetings with the partnership lead contacts every quarter. The Head of Finance and Audit leads on setting the work to be delivered by the partnership each year, and a member of the in-house audit team is allocated to support the partner auditor leading on each individual assignment.
Member involvement in the Partnership
Audit progress is reported at each Audit and Governance Committee meeting, where members of the committee have the opportunity to scrutinise both progress against the Audit Plan and the individual audit results. The Audit Manager from Portsmouth City Council attends the Audit Committee to answer any queries.
Are there any other governance arrangements in place? (e.g. risk registers, financial protocols, committees, boards, public consultation or feedback)
Work completed by the partnership feeds into the Annual Audit Opinion and Annual Governance Statement
Is the partnership itself or any of the partners subject to any external assurances?
Portsmouth City Council's Internal Audit team were subject to an independent review on compliance with Public Sector Internal Audit Standards in June 2018 that found them to be compliant.

Partnership for South Hampshire (PfSH)
Key Officer: Gayle Wootton (Head of Planning Strategy and Economic Development)
Type of Partnership: Public to Public
Partners: Portsmouth City Council, Southampton City Council, Hampshire County Council, Eastleigh Borough Council, East Hampshire District Council, Gosport Borough Council, Havant Borough Council, New Forest National Park Authority, New Forest District Council, Test Valley Borough Council and Winchester City Council
Officer Time (Estimated) committed to management of the Partnership
Approximately half a day per week on PfSH matters, including meeting attendance, liaison with other members and preparation for meetings.
Does the Partnership have a Terms of Reference or agreement? When was it last reviewed?
Yes, signed in 2014.
Officer Involvement in the Partnership
Principally the Head of Planning Strategy and Economic Development and the Principal Planner (Strategy and Regeneration) are involved in PfSH work, focussed around the new Statement of Common Ground. The Principal Planner's involvement will increase as the work on the Employment and Transport themes increase. The Director of Planning and Regeneration and the Chief Executive Officer attend the PfSH CX meetings and Joint Committee, which take place quarterly.
Member involvement in the Partnership
The current Chairman of PfSH and the Joint Committee is the Leader of Fareham Borough Council. PfSH also has an Overview and Scrutiny Committee which is attended by a Member from Fareham. Meeting minutes are available on the PfSH website.
Are there any other governance arrangements in place? (e.g. risk registers, financial protocols, committees, boards, public consultation or feedback)
The partnership has its own financial protocols, a copy of which is available online.
Is the partnership itself or any of the partners subject to any external assurances?
Southampton City Council are the accountable body for PfSH finances. As a result, a review of the PfSH Accounts is undertaken annually by the Southampton City Council Internal Audit team.

Project Integra
Key Officer: Mark Bowler (Head of Streetscene)
Type of Partnership: Public to Public
Partners: Hampshire County Council, Portsmouth City Council, Southampton City Council and other Hampshire District Authorities
Officer Time (Estimated) committed to management of the Partnership
10 hours per month
Does the Partnership have a Terms of Reference or agreement? When was it last reviewed?
The Project Integra constitution was created in 2015.
Officer Involvement in the Partnership
The Head of Streetscene attends Strategic Board and Strategy Officer meetings. The Refuse and Recycling Manager attends Operations and Health & Safety meetings. The Recycling Officer attends Communications meetings.
Member involvement in the Partnership
A Member from FBC sits on the Project Integra Strategic Board which meets twice annually and has an Annual General Meeting. There is also a Member Action Plan Working Group.
Are there any other governance arrangements in place? (e.g. risk registers, financial protocols, committees, boards, public consultation or feedback)
A risk register is in place. Hampshire County Council operates the financial aspects of the Partnership through their finance system. An annual performance update is produced
Is the partnership itself or any of the partners subject to any external assurances?
Hampshire County Council provides a letter of assurance to the partnership which details the assurances they can provide over the elements of the HCC finance system utilised by the Partnership

Portchester Crematorium Joint Committee
Key Officer: Andy Wannell (Deputy Chief Executive Officer)
Type of Partnership: Public to Public
Partners: Portsmouth City Council, Havant Borough Council and Gosport Borough Council
Officer Time (Estimated) committed to management of the Partnership
Very limited, as the Joint Committee are recharged the time spent supporting the partnership.
Does the Partnership have a Terms of Reference or agreement? When was it last reviewed?
Yes, the Joint Committee operates under a Memorandum of Agreement, which was last formally reviewed and updated in 2006. It is, however, reviewed informally each year, as part of the Governance Assurance process for the Joint Committee.
Officer Involvement in the Partnership
FBC provide support in the areas of financial administration, HR and Property Services. The cost of this support is recharged to the Joint Committee.
Member involvement in the Partnership
The Crematorium is overseen by a Joint Committee made up of Members from the partnering authorities. Two FBC Members currently sit on the Joint Committee, which meets quarterly. Minutes, agendas and documents from the meetings are available via the Portsmouth City Council website.
Are there any other governance arrangements in place? (e.g. risk registers, financial protocols, committees, boards, public consultation or feedback)
The Joint Committee is independently constituted, and therefore has a full suite of governance arrangements in place. Risk Management Policy and report are provided to the Committee every year, as is a Governance Assurance statement. An annual financial report is provided by the Deputy Chief Executive Officer in his role as Treasurer to the Joint Committee, and the Committee receive an Annual Report on the principal work of the Crematorium in the year. The financial performance of the Committee is independently audited by external auditors, and the Crematorium receives an annual internal audit review to support the statement of governance assurance. The Fareham Borough Council Audit Team also carry out a cyclical risk based internal audit of the processes utilised at the Crematorium.
Is the partnership itself or any of the partners subject to any external assurances?
Portchester Crematorium receives periodic inspections by the Federation of Burial and Crematoria Authorities, with the last inspection being concluded this year. The results and any subsequent actions have been reported to the Joint Committee for transparency (last reported September 2020).
External Auditors also undertake a review of the accounts of the Joint Committee annually.

Southampton and Fareham Legal Partnership
Key Officer: Leigh Usher (Head of Democratic Services)
Type of Partnership: Public to Public
Partners: Southampton City Council
Officer Time (Estimated) committed to management of the Partnership
1-2 hours per week.
Does the Partnership have a Terms of Reference or agreement? When was it last reviewed?
Yes - signed in 2016.
Officer Involvement in the Partnership
Head of Democratic Services is the Client Manager for FBC.
Member involvement in the Partnership
N/A
Are there any other governance arrangements in place? (e.g. risk registers, financial protocols, committees, boards, public consultation or feedback)
Service review meetings take place on a monthly basis.
Is the partnership itself or any of the partners subject to any external assurances?
Solicitors Regulation Authority.

Appendix C

Corporate List of 'Less Significant' Partnerships

CXMT 9 September 2020

LESS SIGNIFICANT PARTNERSHIPS

Partnership Agreement	Partnership Description	Lead Officer / Contact Officer Department	Source	Partnership Progress		
				R	A	G
Yes ●	<p>Aspect</p> <p>Issues and Achievements</p> <p>The Council continues to work with partners at Vivid Homes, to consider potential developments that would suit the Aspect model.</p> <p>Following the creation of Fareham Housing and the abolition of the HRA borrowing cap, new housing schemes have been prioritised for delivery within the HRA and no new sites have been brought forward as Aspect projects. The Aspect model is still recognised as a potential mechanism for delivering affordable homes within the Council's Affordable Housing Strategy, and officers are keeping this under review as larger scale schemes are identified.</p>	Andy Wannell Department of the Deputy Chief Executive Officer	Commenced 2017			●
Yes ●	<p>Hampshire and Isle of Wight Local Government Association</p> <p>Issues and Achievements</p> <p>HIOWLGA continues to offer an opportunity for all Hampshire Councils to meet and discuss items of joint interest.</p>	Peter Grimwood Chief Executive	Existing			●

<p>Yes ●</p>	<p>Hampshire Children's Trust Fareham Local Children's Partnership (LCP) Issues and Achievements Fareham Local Children's Partnership is represented by the Community Safety Manager to cover community safety, Prevent and safeguarding. The partnership has sporadic attendance at meetings and requires support to set priorities for young people in Fareham. The funding allocation from HCC has slowly decreased and this year's 0-19 grants were allocated with FBC supporting voluntary sector providers in delivering initiatives like the detached youth service which compliments the CSP priorities and is tasked via FBC's monthly Partnership Action Group. There are initial conversations about merging the Community Safety and Local Children's Partnerships.</p>	<p>Narinder Bains Community Safety</p>	<p>Children Act 2004 (changed to less significant March 2016)</p>			<p>●</p>
<p>Yes ●</p>	<p>Wayfarer Partnership Issues and Achievements The partnership is a consortium of 17 registered housing providers. It provides guidance on Homes England grant funding for new affordable home delivery and a platform for the grant application process, as well as support/guidance on Homes England audit requirements. Additionally, it provides significant efficiency saving opportunities for architect and employer agent services through framework agreements. The partnership continues to perform well.</p>	<p>Andy Wannell / Robyn Lyons Fareham Housing</p>	<p>November 2013</p>			<p>●</p>

Partnership Progress			Description
R	A	G	
●			The partnership is not performing.
	●		The partnership needs to improve its performance.
		●	The partnership is progressing well.

FAREHAM

BOROUGH COUNCIL

Report to Audit and Governance Committee

Date: 23 November 2020

Report of: The Deputy Chief Executive Officer

Subject: EXTERNAL AUDIT – AUDIT RESULTS REPORT

SUMMARY

The Committee is asked to consider the External Auditor's Audit Results Report (Appendix A), summarising the findings from the audit of the 2019/20 accounts which is now substantially complete.

Having considered the findings of the External Auditor and the Statement of Accounts, a "letter of representation" will be sent from the Council's Section 151 Officer (Deputy Chief Executive Officer) to the External Auditor. This will enable the External Auditor to issue their audit report on the Council's financial statements. The Statement of Accounts can then be published by the statutory publication deadline, 30 November 2020.

RECOMMENDATION

It is recommended that: -

- (a) the Audit and Governance Committee notes the contents of the draft Annual Results Report (Appendix A);
- (b) the Audit and Governance Committee approve the following rationale for the following two unadjusted audit differences in the financial statements, which will be included in the letter of representation:

We have not corrected these differences identified by and brought to the attention from the auditor because:

- *For the Pension Fund, the audit difference of £891,000 in relation to the Fair Value of plan assets is not material in relation to the net pension fund liability on the balance sheet of £62.3 million.*

- *For Investment Property valuations, the net audit difference of £578,000 is not material in relation to the total Investment value of £64.1 million.*

and

- (c) the Deputy Chief Executive Officer and the Chairman of the Audit and Governance Committee sign the Letter of Representation, subject to the external auditors completing their outstanding procedures and any further amendments to the accounts, or the Letter of Representation, being agreed by the Deputy Chief Executive Officer in consultation with the Chairman of the Audit and Governance Committee.

Background and Reference Papers: None

Enquiries: For further information on this report please contact Andrew Wannell.
(Ext 4620)

Fareham Borough
Council
Audit results report
Year ended 31 March 2020

November 2020



10 November 2020

Dear Audit and Governance Committee Members

We are pleased to attach our audit results report for the forthcoming meeting of the Audit and Governance Committee. This report summarises our preliminary audit conclusion in relation to the audit of Fareham Borough Council for 2019/20.

We have substantially completed our audit of Fareham Borough Council (the Authority) 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 at section 3, before the accounts publication date 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 and Governance Committee, other members of the Authority, 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 and Governance Committee meeting on 23 November 2020.

Yours faithfully

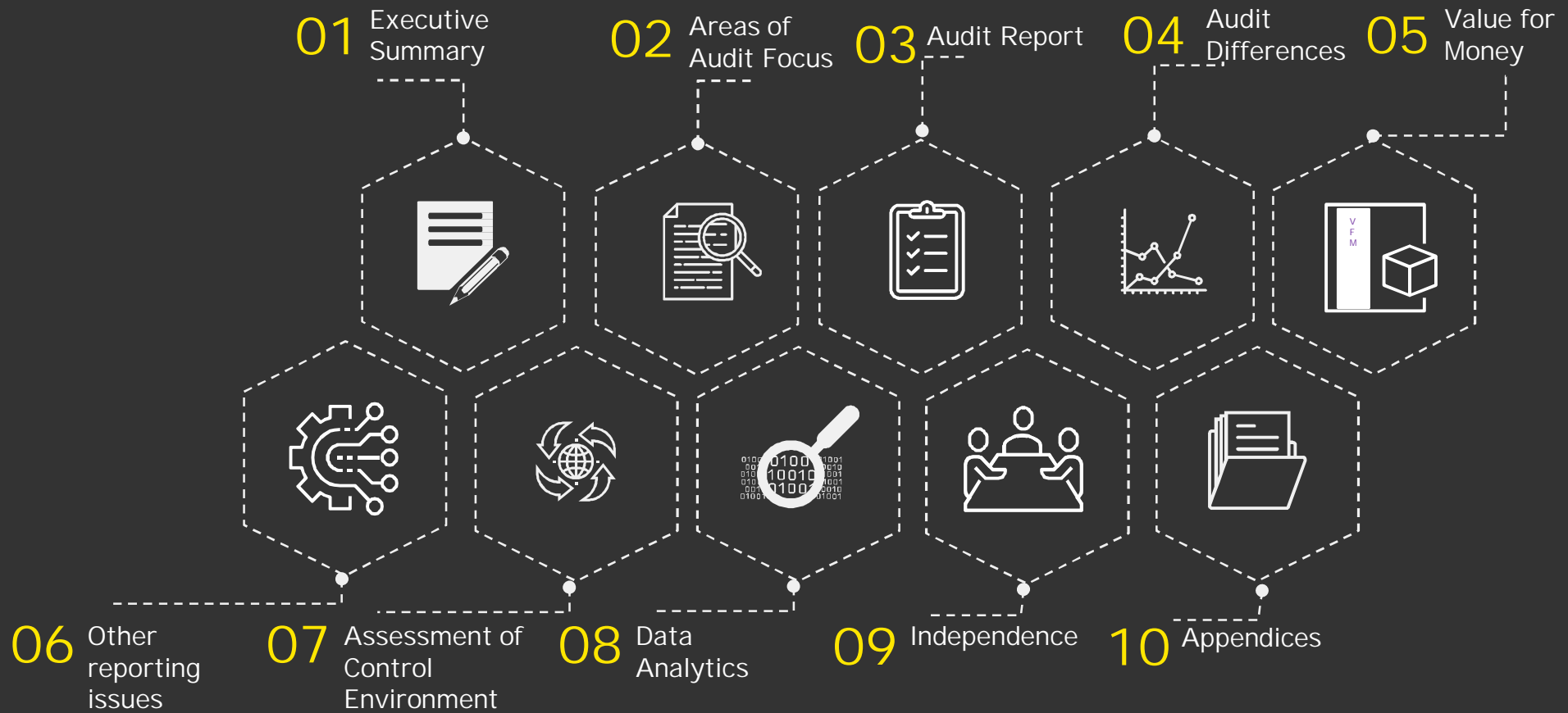
Kevin Suter

Associate Partner

For and on behalf of Ernst & Young LLP

Encl

Contents



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

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

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

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

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



01 Executive Summary

Scope update

Our Audit Planning Report was issued on 26 February 2020 and was due to be presented at the 23 March Audit and Governance Committee meeting. However, this meeting was cancelled due to Covid-19. In our audit planning report 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

We issued an update to our Audit Planning Report in June where we set out the following changes to our risk assessment as a result of Covid-19:

- Valuation of Investment Properties - The Royal Institute of Chartered Surveyors (RICS), the body setting the standards for property valuations, has issued guidance to valuers highlighting that the uncertain impact of Covid-19 on markets might cause a valuer to conclude that there is a material uncertainty. Caveats around this material uncertainty have been included in the year-end valuation reports produced by the Authority's internal valuer. We consider that the material uncertainties disclosed by the valuer gave rise to a significant risk relating to the valuation of and disclosures for investment properties, which are held at Fair Value. Our assessment of Property, Plant and Equipment (PPE) valuations remained unchanged as these are not valued at Fair Value.
- Disclosures on Going Concern - Financial plans for 2020/21 and medium term financial plans will need revision for Covid-19. We considered the unpredictability of the current environment gave rise to a risk that the Local Authority would not appropriately disclose the key factors relating to going concern, underpinned by managements assessment with particular reference to Covid-19 and the Local Authority's actual year end financial position and performance.
- Adoption of IFRS16 - The adoption of IFRS 16 by CIPFA/LASAAC as the basis for preparation of Local Authority Financial Statements has been deferred until 1 April 2021. The Authority will therefore no longer be required to undertake an impact assessment, and disclosure of the impact of the standard in the financial statements does not now need to be financially quantified in 2019/20. We therefore no longer consider this to be an area of audit focus for 2019/20.

Changes in materiality: In our Audit Committee Planning Report, we communicated that our audit procedures would be performed using a materiality of £1.326m, with performance materiality, at 75 % of overall materiality, of £0.994m, and a threshold for reporting misstatements of £0.066m. 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.

We updated our planning materiality assessment using the draft financial statements and have also reconsidered our risk assessment. Based on our materiality measure of gross revenue expenditure we have updated our overall materiality assessment to £1.313m (Audit Planning Report – £1.326m). This results in updated performance materiality, at 75% of overall materiality, of £0.985m. The threshold for reporting misstatements remained unchanged at of £.066m.



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 Authority's systems. We undertook the following to address this risk:

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

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

Additional procedures are required to ensure that sufficiency and consistency of the audit report, given the Covid-19 context.

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 on page 38.



Executive Summary

Status of the audit

We have substantially completed our audit of Fareham Borough Council's financial statements for the year ended 31 March 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 4. However until work is complete, further amendments may arise:

- Testing and review of property valuations
- Review of the final version of the financial statements
- Completion of subsequent events review
- Receipt of the signed management representation letter
- Completion of procedures required by the National Audit Office (NAO) regarding the Whole of Government Accounts submission

We have considered whether our audit opinion will need to emphasise the impact of Covid-19 on property valuations and the going concern assumption. However, the updated disclosures by management sufficiently describe the material events and conditions in relation to the impact of Covid-19 and we do not deem these disclosures fundamental to the users understanding of the accounts:

Investment properties and PPE valuation – The Council has disclosed its consideration of the impact of COVID-19 on the valuation of its investment properties and PPE and the material uncertainty referred to in the valuers report, having regard to the specific composition of land and building assets carried on its balance sheet. Valuations were carried out at the balance sheet date but due to the impact of COVID-19 on the market at year-end the internal valuers have indicated that less certainty can be attached to these valuations.

Going concern – The current and future uncertainty over government funding and loss of income as a result of Covid-19 increases the need for the Council to revisit its financial planning and undertake a detailed assessment to support its going concern assertion. From an audit perspective, the auditor's report going concern concept is a 12-month outlook from the audit opinion date, rather than the balance sheet date. We agree that the Council's accounts should be prepared on the going concern basis. However, we have recommended and management have agreed to enhance the disclosures to reflect these events and conditions which impacts on financial planning and the going concern assumption.

We are now satisfied with the revised disclosure and that it adequately and sufficiently discloses material events and conditions in relation to the going concern assumption of the Council.



Executive Summary

Audit differences

At the time of writing we identified two unadjusted audit differences in the draft financial statements which management has chosen not to adjust. We ask that they be corrected or a rationale as to why they are not corrected be approved by the Audit and Governance Committee and included in the Letter of Representation. The aggregated impact of unadjusted audit differences is £1,397k. We agree with management's assessment that the impact is not material.

We have also identified audit differences with an aggregated impact of £1,454k which have been adjusted by management. Details can be found in Section 4 Audit Differences.

Areas of audit focus

Our Audit Planning Report identified key areas of focus for our audit of Fareham Borough 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 "Areas of Audit Focus" 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 and Governance Committee.

Control observations

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 and which is unknown to you.



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. In our Audit Planning Report we identified no significant risks for our value for money conclusion.

We have no matters to report about your arrangements to secure economy efficiency and effectiveness in your use of resources. Details can be found in Section 5 Value for Money.

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 have not yet performed the procedures required by the National Audit Office (NAO) on the Whole of Government Accounts submission. Instructions to auditors have only recently been issued. However as the Council is below the testing threshold set by the NAO we do not anticipate to have any issues to report.

We have no other matters to report.

Independence

We have no matters to highlight on Independence.



02 Areas of Audit Focus



Areas of Audit Focus

Significant risk

Inappropriate capitalisation of revenue expenditure

What is the risk?

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

We have identified an opportunity and incentive to capitalise expenditure under the accounting framework, to remove it from the general fund. This would result in funding expenditure that should properly be defined as revenue, through inappropriate sources such as capital receipts, capital grants, or borrowing. The manipulation of capitalising expenditure could occur through management override of controls.

What judgements are we focused on?

We focused on the following:

- Understanding the controls relevant to this significant risk;
- For significant additions we examined invoices, capital expenditure authorisations, leases and other data that support these additions and expenditure. We reviewed the sample selected against the definition of capital expenditure in IAS 16; and
- Whether management were inappropriately processing journals that transferred amounts from revenue to capital.

What did we do?

- Documented our understanding of the controls relevant to this significant risk and considered they have been appropriately designed;
- Amended our sample sizes when testing PPE additions to reflect the existence of this risk.
- Agreed samples to source documentation to ensure that any capital/revenue split was reasonable; and
- Designed journal procedures to identify and review adjustment manual journals that moved amounts from revenue codes to capital codes.

What are our conclusions?

Based on the work completed at the time of drafting this report:

- We have not identified any issues with the classification of capital expenditure.
- We have not identified any instances of inappropriate judgements being applied.





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.

What judgements are we focused on?

We focused on the following:

- Understanding the risks of fraud and the controls put in place to address those risks by management and how the Audit and Governance Committee oversees management's processes over fraud.
- Considering the effectiveness of management's controls designed to address the risk of fraud.
- Determining an appropriate strategy to address those identified risks of fraud.
- Performing mandatory procedures in respect of journal entries, estimates and significant unusual transactions.

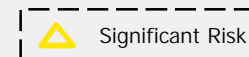
What did we do?

- Wrote to the s151 officer, Chair of the Audit and Governance Committee and the Head of Finance and Audit in this regard and reviewed their responses;
- Documented our understanding of the controls relevant to this significant risk and considered they have been appropriately designed;
- Tested the appropriateness of journal entries recorded in the general ledger and other adjustments made in preparing the financial statements;
- Reviewed accounting estimates for evidence of management bias; and
- Evaluated the business rationale for any significant unusual transactions.

What are our conclusions?

Based on the work completed at the time of drafting this report:

- 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, or of any management bias.
- We did not identify any transactions during our audit which appeared unusual or outside the Council's normal course of business.
- We did not identify any inappropriate recording of journal entries during the year or during preparation of the financial statements





Areas of Audit Focus

Significant risk

Valuation of Investment Properties

What is the risk?

The fair value of Investment Properties represents a significant balance in the Council's accounts and are subject to valuation changes, impairment reviews and market fluctuations. Management is required to make material judgements and apply estimation techniques to calculate the year-end balances recorded in the balance sheet.

Update – Covid-19 related constraints on property valuation

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. This impact is expected to affect Investment Properties as the valuation basis for these properties are linked to recent market transactions. Caveats around this material uncertainty have been included in the year-end valuation reports produced by the Council's internal valuer.

What judgements are we focused on?

We focused on the following:

- The adequacy of the scope of the work performed by the valuer including their professional capabilities; and
- The reasonableness of the underlying assumptions used by the Council's internal valuer.

What did we do?

- Considered the work performed by the Council's valuer, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work
- Sample tested key asset information used by the valuers in performing their valuation and challenge the key assumptions used by the valuer;
- We also considered if there are any specific changes to assets that have occurred and that these have been communicated to the valuer; and
- Tested accounting entries have been correctly processed in the financial statements.

Additional Covid-19 procedures in response to our risk include:

- Ensured the appropriate disclosure has been made in the accounts concerning the material uncertainty including in Note 9 'Assumptions made about the future and other sources of estimation uncertainty; and
- Obtained input from EY Real Estates (EYRE), our internal specialists on asset valuations for Investment Properties, including inputs on market sentiment and how it has been reflected in the Estimated Rental Values (ERVs)/yields.



Areas of Audit Focus

Significant risk

Valuation of Investment Properties (cont.)

What is the risk?

The fair value of Investment Properties represents a significant balance in the Council's accounts and are subject to valuation changes, impairment reviews and market fluctuations. Management is required to make material judgements and apply estimation techniques to calculate the year-end balances recorded in the balance sheet.

Update – Covid-19 related constraints on property valuation

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. This impact is expected to affect Investment Properties as the valuation basis for these properties are linked to recent market transactions. Caveats around this material uncertainty have been included in the year-end valuation reports produced by the Council's internal valuer.

What are our conclusions?

- We have reviewed the instructions and data provided to the valuer by the Council. We identified no issues.
- We have reviewed the classification and valuation methods used. We identified no issues.
- We reviewed the scope and relationship of the valuer to the Council and identified no issues.
- We were satisfied that disclosures in the accounts were appropriate concerning the material uncertainty.
- Our review of accounting entries at period end and those journals made in processing valuation adjustments did not identify any issues

Furthermore, we reviewed inputs obtained from EYRE on asset valuations for Investment Properties which confirmed that, except for the following properties, the assumptions used, including those related to ERVs/yields were appropriate. Management opted not to correct the differences below as the net impact was immaterial:

- 1-3 Ridgeway – valuation £133k above the upper end of our expected range of £8.665m. This was mainly due to the inclusion of acquisition cost and SDLT in management's valuation which is not appropriate to recognise under the fair value basis
- Broadcut Retail Park – valuation £570k above the upper end of our range of £4.45m. This was mainly due to the inclusion of acquisition cost and SDLT in management's valuation which is not appropriate to recognise under the fair value basis

We subsequently reviewed the full population of properties to determine the extent of acquisition costs and SDLT included in other property valuations and identified a further overstatement of £494k in relation to these properties resulting in a total overstatement of £1,197k

- Unit 27 Palmerston Business Park - £22k below the lower end of our expected range of £163k but this is one unit on the wider estate out of 28 units and if the remaining units are let on a similar basis the understatement would amount to £619k. Management adopted a yield of 11% whereas our research determined an equivalent yield of 7%-9%.



Areas of Audit Focus

Other financial statement risk

Valuation of land and buildings

What is the risk?

The fair value of PPE represents a significant balance in the Council's accounts and are subject to valuation changes, impairment reviews and depreciation charges. Management is required to make material judgements and apply estimation techniques to calculate the year-end balances recorded in the balance sheet.

Update – Covid-19 related constraints on property valuation

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. This impact is expected to affect PPE valued at Existing Use Value (EUUV) as the valuation basis for these properties are linked to recent market transactions. Caveats around this material uncertainty have been included in the year-end valuation reports produced by the Council's internal valuer.

What judgements are we focused on?

We focused on the following:

- The adequacy of the scope of the work performed by the valuer including their professional capabilities; and
- The reasonableness of the underlying assumptions used by the Council's expert valuer.

What did we do?

- Considered the annual cycle of valuations to ensure that assets have been valued within a 5 year rolling programme as required by the Code for PPE;
- Reviewed assets not subject to valuation in 2019/20 to confirm that the remaining asset base was not materially misstated;
- Sample tested key asset information used by the valuers in performing their valuation;
- We also considered if there are any specific changes to assets that have occurred and that these have been communicated to the valuer; and
- Tested accounting entries have been correctly processed in the financial statements.

Additional Covid-19 procedures in response to our risk include:

- Considered the Council's asset base by type of asset and valuation methodology, as impacts are likely to be more significant for assets valued on the basis of data from market transactions;
- Ensured the appropriate disclosure has been made in the accounts concerning the material uncertainty; and
- Obtained input from EY Real Estates (EYRE), our internal specialists on asset valuations for PPE, including inputs on market sentiment and how it has been reflected in valuations which are based on EUUV



Areas of Audit Focus

Other financial statement risk

Valuation of land and buildings (cont.)

What is the risk?

The fair value of PPE represents a significant balance in the Council's accounts and are subject to valuation changes, impairment reviews and depreciation charges. Management is required to make material judgements and apply estimation techniques to calculate the year-end balances recorded in the balance sheet.

Update – Covid-19 related constraints on property valuation

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. This impact is expected to affect PPE valued at Existing Use Value (EUUV) as the valuation basis for these properties are linked to recent market transactions. Caveats around this material uncertainty have been included in the year-end valuation reports produced by the Council's internal valuer.

What are our conclusions?

We have not been able to complete this complex area of work in the time available to draft our report for the Committee paper deadline. Our work is substantially complete and we will provide you with a verbal update on the outcome of our procedures at the Audit and Governance Committee meeting on 23 November 2020. To date:

- We have reviewed the instructions and data provided to the valuer by the Council. We identified no issues.
- We have reviewed the classification and valuation methods used. Other than the matter mentioned below in relation to Community Centres, we identified no issues with the classification and valuation methods used by management.
- We considered the annual cycle of valuations and confirmed that assets have been valued within a 5 year rolling programme as required by the Code .
- We reviewed assets not subject to valuation in 2019/20 and confirmed that the remaining asset base was not materially misstated.
- We reviewed the scope and relationship of the valuer to the Council and identified no issues.
- We were satisfied that disclosures in the accounts were appropriate concerning the material uncertainty.
- We reviewed inputs obtained from EYRE which confirmed that the assumptions used were appropriate.
- Our review of accounting entries at period end and those journals made in processing valuation adjustments did not identify any issues.

Furthermore, we reviewed inputs obtained from EYRE on asset valuations for PPE which confirmed that the incorrect valuation method was used to value the Crofton Community Centre resulting in a material understatement of the valuation. For Community Centres we judge the Depreciated Replacement Cost method to be the appropriate valuation method as this method reflects the service potential of the asset to the Council, rather than the income approach adopted by management. Whilst there is a rental market for such facilities, arrangements are often at discounted rents with the lease linked to the service provision and there is little or no evidence of such facilities selling as investments. Management has since revised their valuations for all its Community Centres and we are currently reviewing these valuation adjustments.



Areas of Audit Focus

Other financial statement risk

Pension Liability valuation

What is the risk?

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

The Council's pension fund deficit is a material estimated balance and the Code requires that this liability be disclosed on the Council's balance sheet. At 31 March 2020 the net pension liability totalled £62,349k.

The information disclosed is based on the IAS 19 report issued to the Council by the actuary to the County Council.

Accounting for this scheme involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf. ISAs (UK 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 Authority's expert – Aon Hewitt;
- Ensuring the information supplied to the actuary in relation to Fareham Borough Council was complete and accurate; and
- 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 Hampshire Pension Fund, to obtain assurances over the information supplied to the actuary in relation to Fareham Borough Council;
- Assessed the work of the Pension Fund actuary (Aon Hewitt) including the assumptions they have used by relying on the work of PWC - Consulting Actuaries commissioned by the National Audit Office for all Local Government sector auditors, and considered relevant reviews by the EY actuarial team; and
- Reviewed and tested the accounting entries and disclosures made within the Council's financial statements in relation to IAS19.

What are our conclusions?

We obtained assurances from the auditors of Hampshire County Council Pension Fund that the information supplied to the actuary in relation to Fareham Borough Council was accurate and complete.

We have assessed and are satisfied with the competency and objectivity of the Council's actuaries: Aon.

We have reviewed the work of the actuaries. We challenged the actuarial valuation and found no indication of management bias in this estimate.

Our review of accounting entries at period end and those journals made in processing valuation adjustments did not reveal any instances of management intention to misreport the financial position.

We identified an adjusting event after reporting date relating to the McCloud judgement, the effect of which would have decreased the net pension liability. However, an allowance had already been made for McCloud in the previous year's net pension liability valuation and the IAS 19 figures provided by Aon fully took into account the material aspects of the McCloud judgement. Furthermore, the fair value of plan assets of the pension fund increased by £891k (Fareham Borough Council's share) resulting in a decrease in the net pension liability. Management opted not to amend the accounts as the impact was immaterial and therefore did not request an updated IAS 19 report from the Actuaries.



Areas of Audit Focus

Other financial statement risk

Going concern

What is the risk?

The Council prepares its accounts on the assumption that it will continue as a going concern. The current and future uncertainty over government funding and loss of income as a result of Covid-19 increases the need for the Council to revisit its financial planning and undertake a detailed assessment to support its going concern assertion. From an audit perspective, the auditor's report going concern concept is a 12-month outlook from the audit opinion date, rather than the balance sheet date. So, for the 2019/20 statements, for example, we will need to see evidence of an assessment up to and including October 2021. This will need information relevant to the 2021/22 financial year.

What judgements are we focused on?

We focused on management's assessment of the going concern assumption in preparing the Council's financial statements. We also reviewed management's cash flow forecasts to determine whether expected forecasting appeared reasonable and whether it was sufficient to enable the Council to continue its operations.

We also discussed with management further disclosures required in the 2019/20 statements on going concern and in particular, material events and uncertainties

What did we do?

- We reviewed the Audit and Governance Committee's assessment of the appropriateness of the going concern assumption;
- We reviewed and challenged the level and form of disclosure of this assessment made in the financial statements, given the Covid-19 pandemic; and
- Reviewed the Council's cash flow forecasts and financial plans for the foreseeable future to ensure that these are sufficiently robust and supported by adequate evidence, and that the cash flow forecasts demonstrate that the Council has sufficient liquidity to continue its operations.

What are our conclusions?

- Our review of management's continued use of the going concern assumption concludes it remains appropriate;
- We reviewed the proposed going concern disclosures for inclusion in the financial statements. We identified that the first draft of the proposed disclosure was very brief, and provided limited information and understanding to the reader of the financial position and management subsequently enhanced the disclosures;
- In our view no significant uncertainty exists that may cast doubt on the Council's ability to continue as a going concern, which would be required to be disclosed. The key issues we reflected on for our assessment relate to a combination of the Council's liquidity and its level of General Fund reserves. Management's assessment demonstrates that reserves should be maintained above the minimum level set by the s151 officer for the foreseeable future, and the Council will have access to sufficient working capital.
- The Council has updated its disclosures in the accounts to reference these factors and we are now satisfied with the revised disclosure and that it adequately and sufficiently discloses material events and conditions in relation to the going concern assumption of the Council and that no material uncertainties exist.



Areas of Audit Focus

Other financial statement risk

NDR Appeals Valuation

What is the risk?

The Non Domestic Rates Appeals Provision is a material balance in the financial statements which requires a number of assumptions and judgements.

In addition, in previous years we have identified errors above our audit differences threshold.

What judgements are we focused on?

We focused on the following:

- The reasonableness of the assumptions to appeals made to the 2005 and 2010 ratings lists;
- The reasonableness of the assumptions made to any appeals lodged against the 2017 ratings list, and the Council's assumptions for appeals as yet unlogged.

What did we do?

- Reviewed the calculation of the provision for accuracy;
- Considered the work performed by the Council expert, Analyse Local and understood the assumptions used in their calculation;
- Ensured the Council has amended the provision appropriately for any Business Rate reliefs awarded; and
- Performed post year-end review of appeals settled to determine whether the revised rateable value and effective date of the appeal are in line with the provision

What are our conclusions?

We have reviewed the calculation of the provision and confirmed that the calculation initially used a 4.7% national guideline to determine the estimate of outstanding appeals. This did not take into account local considerations. Our recalculation resulted in a £528k understatement which management corrected.

We reviewed the assumptions, methods and models used by management's specialist. We identified no issues.

Our post year-end review of appeals settled identified no issues.



Areas of Audit Focus



Other matters

Assessment of new Accounting Standards

- IFRS 16 Leases: Due to the COVID-19 pandemic, implementation date for IFRS 16 has been deferred to 1 April 2021. In your view the impact of the introduction of IFRS 16 and its amendments is not material as the Council is not party to significant operating leases as lessee. In our view, given the immaterial balance of operating leases as lessee in the accounts, it is unlikely that the future implementation of IFRS 16 will have a material impact on the single entity financial statements of the Council.
- Lessor arrangements remain unchanged under IFRS 16.



03 Audit Report



Draft Audit Report

Draft audit report

Our opinion on the financial statements

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

Opinion

We have audited the financial statements of Fareham Borough 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,
- The related notes 1 to 34,
- Housing Revenue Account Income and Expenditure Statement, Movement on the Housing Revenue Account Statement, the notes to the Housing Revenue Account, and
- Collection Fund and the related notes 1 to 3.

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



Draft Audit Report

Our opinion on the financial statements

Other information

The other information comprises the information included in the Annual Statement of Accounts for the year 2019/20, other than the financial statements and our auditor's report thereon. The Deputy Chief Executive 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.

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, Fareham Borough 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 Deputy Chief Executive Officer

As explained more fully in the Statement of Responsibilities set out on page 18, the Deputy Chief Executive 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 Deputy Chief Executive Officer is responsible for assessing the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Authority either intends to cease operations, or have no realistic alternative but to do so.



Draft Audit Report

Our opinion on the financial statements

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

Auditor’s responsibilities for the audit of the financial statements

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

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

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

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General (C&AG) in April 2020, as to whether the 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 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 Council had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

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

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

Certificate

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



04 Audit Differences





Audit Differences

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

Summary of adjusted differences

We highlight the following misstatements greater than £0.066m identified during the course of our audit which management are in the process of correcting:

- A difference of £76k between the Orchards system creditors listing and the trial balance
- A difference of £471k between the Note 18 Property, Plant and Equipment and the valuation report for Council Dwellings
- An overstatement of £184k in relation to short term debtors due to an error on clearing the cash control accounts to council tax and NNDR;
- An understatement of £528k in relation to the NDR Appeals provision. Management used a national figure of 4.7% to determine its NDR Appeals provision rather than using local knowledge of appeals;
- An understatement of £196k in relation to an investment property that was valued on the basis of the potential future use (longer term redevelopment) when it was more appropriate to value the property based on current use when assessing the fair value; and
- Some minor misstatements in disclosures

We will also update the Committee if there are any further issues arising from our incomplete audit procedures.



Audit Differences

Summary of unadjusted differences

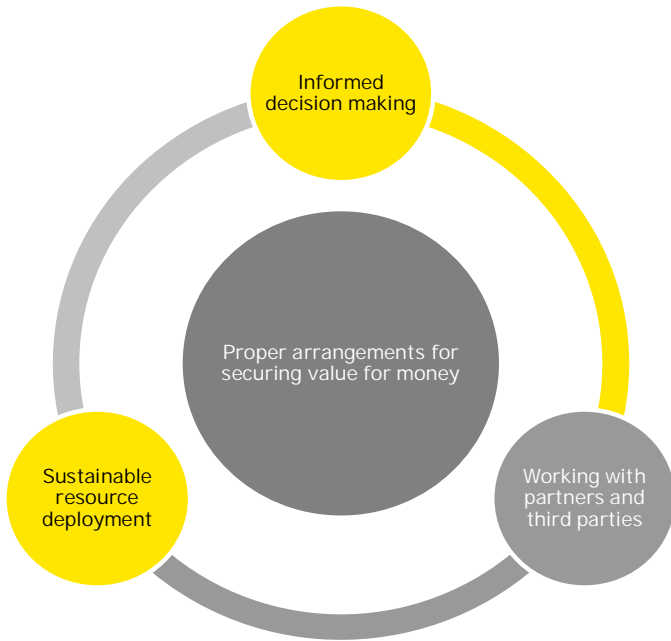
In addition we highlight the following misstatements to the financial statements and/or disclosures which were not corrected by management. We request that these uncorrected misstatements be corrected or a rationale as to why they are not corrected be considered and approved by the Audit and Governance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

	Assets Current	Assets Non-current	Liabilities Current	Liabilities Non-current	Reserves	CIES
	Debit/ (Credit)	Debit/ (Credit)	Debit/ (Credit)	Debit/ (Credit)	Debit/ (Credit)	Debit/ (Credit) Current period
Uncorrected misstatements						
Known differences:						
▶ Valuation difference in relation to the Fair Value of plan assets of the Pension Fund				£891k	(£891k)	
Judgemental differences:						
▶ Overstatement of investment property valuations in relation to acquisition costs included in management's valuation		(£1,197k)				£1,197k
▶ Understatement of the valuation for Palmerston Business Park due to the use of a higher yield resulting in a lower valuation		£618k				(£618k)
Total	-	(578k)	-	£891k	(£891k)	£578k



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 Annual 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 Annual Statement of Accounts 2019/20 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. These instructions have only recently been received.

We anticipate have no matters to report as the Council is below the £500m threshold for undertaking detailed audit procedures.

Other reporting issues

Other powers and duties

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

We also have a duty to make written recommendations to the Authority, copied to the Secretary of State, and take action in accordance with our responsibilities under the Local Audit and Accountability Act 2014. 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 Council’s financial reporting process. They include the following:

- Significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures - *None*;
- Any significant difficulties encountered during the audit - *None*;
- Any significant matters arising from the audit that were discussed with management - *None*;
- Written representations we have requested – *Management assurance letter is still outstanding*;
- Expected modifications to the audit report - *None*;
- Any other matters significant to overseeing the financial reporting process - *None*;
- Related parties - *None*;
- External confirmations - *None*; and
- Consideration of laws and regulations - *None*.



07

Assessment of Control Environment



Assessment of Control Environment

Financial controls

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

As part of our audit of the 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.



08 Data Analytics



Use of Data Analytics in the Audit

▶ Data analytics – Journal entries

Analytics Driven Audit

Data analytics

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

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

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

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

Journal Entry Analysis

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



09

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 report dated 26 February 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 and Governance 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 and Governance Committee on 19 October 2020.

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

	Final Fee 2019/20	Planned Fee 2019/20	Scale Fee 2019/20	Final Fee 2018/19
	£	£	£	£
Total Audit Fee – Code work	54,820*	37,137	37,137	38,265
Non-audit work – Grant claims	N/A**	N/A**	N/A**	N/A**
Total non-audit services	N/A	N/A	N/A	N/A
Total fees	54,820*	37,137	37,137	38,265

Confirmation and analysis of Audit fees (continued)

* The final fee for our Code work will be confirmed upon completion of the audit. We will report the final fee in relation to the audit to the Audit and Governance Committee in our Annual Audit Letter. For 2019/20, the final fee has been impacted by a range of factors which has resulted in additional work. We set out an estimate of the potential additional fee for this below which we will discuss with the Deputy Chief Executive Officer and is subject to approval by PSAA:

- The need to engage EY Real Estate to review a sample of valuations of investment properties and EUV assets, 14 assets in total, c.£14,000
- Review of additional disclosures that were required in relation to going concern, c.£2,500
- Additional work performed in relation to Pension Fund IAS 19 data submission procedures undertaken for admitted bodies, c.£801
- Additional work undertaken on aspects of housing benefit income and expenditure which would previously have been performed as part of HB certification, £382 based on prior year. This had to be done separately as we are not the HBAP reporting accountant, therefore, increasing the scope where remuneration would previously have been under HBCOUNT principle through HB certification work. The detail of this work is as follows:

Module 2:

Establishing that the system parameters had been appropriately updated to ensure the correct calculation of benefit awarded.

Module 5 - Ensuring that:

- (1) The system has been upgraded to the latest subsidy software, therefore, correctly producing figures for the subsidy claim – including supplementary adjustment reports - which is the basis of the annual income and any dr/cr compared to payments on account.
- (2) Reconciliation of the draft claim form to the Financial Statements.
- (3) The system has been balanced, and benefit awarded can be reconciled to (a) the subsidy claimed, and (b) reconciles to the general ledger and financial statements of the authority recording the expenditure recognised for the year.

This work was undertaken by audit staff, with supervision from the audit senior

** Since 2018/19 we are no longer the reporting accountant for HB certification.

Independence



Relationships, services and related threats and safeguards



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

There are no relationships from 1 April 2019 to the date of this report, which we consider may reasonably be thought to bear on our independence and objectivity.

Services provided by Ernst & Young

The fee table above includes a summary of the fees that you have paid to us in the year ended 31 March 2020 in line with the disclosures set out in FRC Ethical Standard and in statute.

We confirm that none of the services listed in the fee table above has been provided on a contingent fee basis.

As at the date of this report, we are contracted to provide audit services for a further three years from 1 April 2020.

Other communications

EY Transparency Report 2020

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

Details of the key policies and processes in place within EY for maintaining objectivity and independence can be found in our annual Transparency Report which the firm is required to publish by law. The most recent version of this Report is for the year end 30 June 2020:

https://www.ey.com/en_uk/who-we-are/transparency-report-2020







10 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 and Governance Committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies
Our responsibilities	Reminder of our responsibilities as set out in the engagement letter.	November 2020 Audit results report
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified.	November 2020 Audit results report
Significant findings from the audit	<ul style="list-style-type: none"> • Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures • Significant difficulties, if any, encountered during the audit • Significant matters, if any, arising from the audit that were discussed with management • Written representations that we are seeking • Expected modifications to the audit report • Other matters if any, significant to the oversight of the financial reporting process 	November 2020 Audit results report

Appendix A

Our Reporting to you

Required communications	What is reported?	When and where
Going concern	Events or conditions identified that may cast significant doubt on the entity’s ability to continue as a going concern, including: <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 	November 2020 Audit results 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 	November 2020 Audit results report
Subsequent events	<ul style="list-style-type: none"> • Enquiry of the audit committee where appropriate regarding whether any subsequent events have occurred that might affect the financial statements. 	23 November 2020 To be confirmed with letter of representation following the Audit and Governance Committee meeting
Fraud	<ul style="list-style-type: none"> • Enquiries of the Audit and Governance Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the Authority • Any fraud that we have identified or information we have obtained that indicates that a fraud may exist • Unless all of those charged with governance are involved in managing the Authority, any identified or suspected fraud involving: <ol style="list-style-type: none"> a. Management; b. Employees who have significant roles in internal control; or c. Others where the fraud results in a material misstatement in the financial statements. • The nature, timing and extent of audit procedures necessary to complete the audit when fraud involving management is suspected • Any other matters related to fraud, relevant to Audit and Governance Committee responsibility. 	November 2020 Audit results report We have no matters to report

Appendix A

Our Reporting to you

Required communications	What is reported?	When and where
Related parties	<p>Significant matters arising during the audit in connection with the Authority's related parties including, when applicable:</p> <ul style="list-style-type: none"> • Non-disclosure by management • Inappropriate authorisation and approval of transactions • Disagreement over disclosures • Non-compliance with laws and regulations • Difficulty in identifying the party that ultimately controls the Authority 	<p>November 2020 Audit results report</p> <p>We have no matters 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>26 February 2020 Audit planning report</p> <p>November 2020 Audit results report</p>

Appendix A

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. 	November 2020 Audit results report We have no matters to report
Consideration of laws and regulations	<ul style="list-style-type: none"> Subject to compliance with applicable regulations, matters involving identified or suspected non-compliance with laws and regulations, other than those which are clearly inconsequential and the implications thereof. Instances of suspected non-compliance may also include those that are brought to our attention that are expected to occur imminently or for which there is reason to believe that they may occur Enquiry of the Audit and Governance Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the audit committee may be aware of 	November 2020 Audit results report We have no matters to report
Significant deficiencies in internal controls identified during the audit	<ul style="list-style-type: none"> Significant deficiencies in internal controls identified during the audit. 	November 2020 Audit results report We have no matters to report

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 	November 2020 Audit results report
Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	<ul style="list-style-type: none"> Material inconsistencies or misstatements of fact identified in other information which management has refused to revise 	November 2020 Audit results report We have no matters to report
Auditors report	<ul style="list-style-type: none"> Any circumstances identified that affect the form and content of our auditor's report 	November 2020 Audit results report
Fee Reporting	<ul style="list-style-type: none"> Breakdown of fee information when the audit planning report is agreed Breakdown of fee information at the completion of the audit Any non-audit work 	26 February 2020 Audit planning report November 2020 Audit results report

Management representation letter

Management Rep Letter

Ernst & Young
Grosvenor House
Grosvenor Square
Southampton
SO15 2BE

This letter of representations is provided in connection with your audit of the financial statements of Fareham Borough 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 Council financial position of Fareham Borough 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 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, and are free of material misstatements, including omissions. 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. We have not corrected these differences identified by and brought to the attention from the auditor because [specify reasons for not correcting misstatement].

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

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

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, any allegations by “whistleblowers”), including non-compliance matters:

- involving financial statements;
- related to laws and regulations that have a direct effect on the determination of material amounts and disclosures in the 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 Council and 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: *[list date]*.

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 31 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.

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.

Management representation letter

Management Rep Letter

3. We have recorded and/or disclosed, as appropriate, all liabilities related to litigation and claims, both actual and contingent, and have disclosed in Note 39 to the financial statements all guarantees that we have given to third parties.

E. Subsequent Events

1. Other than described in Note 2 to the financial statements, there have been no events, including events related to the COVID-19 pandemic, subsequent to period end which require adjustment of or disclosure in the financial statements or notes thereto.

F. Other information

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

G. Ownership of Assets

1. Except for assets capitalised under finance leases, the Council has satisfactory title to all assets appearing in the balance sheet, and there are no liens or encumbrances on the Council's assets, nor has any asset been pledged as collateral. All assets to which the Council has satisfactory title appear in the balance sheet.
2. All agreements and options to buy back assets previously sold have been properly recorded and adequately disclosed in the financial statements.
3. We have no plans to abandon lines of product or other plans or intentions that will result in any excess or obsolete inventory, and no inventory is stated at an amount in excess of net realisable value.
4. There are no formal or informal compensating balance arrangements with any of our cash and investment accounts.

H. Reserves

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

I. Use of the Work of a Specialist - Actuary

1. We agree with the findings of the specialists that we engaged to evaluate the valuation of the net pension liability 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.

J. Use of the Work of a Specialist – Property valuers

1. We agree with the findings of the specialists that we engaged to evaluate the valuation of the operational land and buildings 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.

K. Estimate – NNDR appeals and other provisions

1. We believe that the measurement processes, including related assumptions and models, used to determine the accounting estimate has been consistently applied and are appropriate in the context of CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.
2. We confirm that the significant assumptions used in making the estimate of provisions (including the NNDR appeals provision) appropriately reflect our intent and ability to carry out providing services on behalf of the entity.

Management representation letter

Management Rep Letter

3. We confirm that the disclosures made in the financial statements with respect to the accounting estimate are complete, including the effects of the COVID-19 pandemic and made in accordance with CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.
4. We confirm that no adjustments are required to the accounting estimate and disclosures in the financial statements due to subsequent events, including due to the COVID-19 pandemic.

L. Estimate – Valuation of Council land and buildings estimate

1. We believe that the measurement processes, including related assumptions and models, used to determine the accounting estimate has been consistently applied and are appropriate in the context of CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.
2. We confirm that the significant assumptions used in making the valuation of land and buildings estimate appropriately reflect our intent and ability to carry out providing services on behalf of the entity.
3. We confirm that the disclosures made in the financial statements with respect to the accounting estimate are complete, including the effects of the COVID-19 pandemic and made in accordance with CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.
4. We confirm that no adjustments are required to the accounting estimate and disclosures in the financial statements due to subsequent events, including due to the COVID-19 pandemic.

M. Estimate – Pensions valuation estimate

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

2. We confirm that the significant assumptions used in making the pensions valuation estimate appropriately reflect our intent and ability to carry out providing services on behalf of the entity.
3. We confirm that the disclosures made in the financial statements with respect to the accounting estimate are complete, including the effects of the COVID-19 pandemic and made in accordance with CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.
4. We confirm that no adjustments are required to the accounting estimate and disclosures in the financial statements due to subsequent events, including due to the COVID-19 pandemic.

N. Retirement benefits

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

Yours faithfully,

(Deputy Chief Executive Officer)

(Chair of the Audit and Governance Committee)

Accounting and regulatory update

Future accounting developments

The following table provides a high level summary of the future accounting developments that have the potential to have the most significant impact on you:

Name	Summary of key measures 	Impact Fareham Borough Council 
IFRS 16	<ul style="list-style-type: none"> HM Treasury have agreed with the Financial Reporting Advisory Board (FRAB) to defer the implementation of IFRS 16 Leases until 1 April 2021. This is because of the circumstances caused by Covid-19. 	<ul style="list-style-type: none"> The Authority will need to undertake significant preparatory work for the implementation of this accounting standard. The Authority should review its implementation arrangements and ensure due consideration before the standard is implemented.

Regulatory update

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Since the date of our last report to the Audit and Governance Committee, there have been a number of regulatory developments. The following table provides a high level summary of those that have the potential to have the most significant impact on you:

Name	Summary of key measures	Impact on Fareham Borough Council
Code of Audit Practice 2020	<ul style="list-style-type: none"> The updated Code of Audit Practice issued by the National Audit Office has introduced some significant changes to the requirements regarding auditors' work on the value for money conclusion, which will be applicable from 2020/21. 	<ul style="list-style-type: none"> The NAO are currently updating the Auditor Guidance Notes which will set out how the new Code of Audit Practice should be applied when carrying out value for money work. As such, the impact remains to be confirmed. Further updates will be provided when possible.
Going Concern - ISA (UK) 570 (Revised September 2019)	<ul style="list-style-type: none"> The standard is effective for audits of financial statements for periods commencing on or after 15 December 2019, however EY expects to early-adopt the revised standard for all of our audits of periods ending on or after 30 June 2020. This auditing standard has been revised in response to enforcement cases and well-publicised corporate failures where the auditor's report failed to highlight concerns about the prospects of entities which collapsed shortly after. 	<ul style="list-style-type: none"> Practice Note 10, which sets out how the auditing standards are applied in a public sector context, is currently being revised, including in light of the updated standard for Going Concern. As such, the impact is not clear at this stage. Further updates will be provided when possible.

Accounting and regulatory update

Name	Summary of key measures	Impact on Fareham Borough Council
Independence	<ul style="list-style-type: none"> The Financial Reporting Council (FRC) published the Revised Ethical Standard 2019 in December and will be effective from 15 March 2020. A key change in the new Ethical Standard will be a general prohibition on the provision of non-audit services by the auditor (and its network) which will apply to companies that are UK Public Interest Entities (PIEs). This prohibition will also extend to any UK parent and apply to all worldwide subsidiaries. A narrow list of permitted services will continue to be allowed. 	<ul style="list-style-type: none"> We will continue to monitor and assess all ongoing and proposed non-audit services and relationships to ensure they are permitted under the FRC Revised Ethical Standard 2019 which will be effective from 15 March 2020. Non-audit services which are in progress as at 15 March 2020 and are permitted under the existing ethical standard will be allowed to continue under the existing engagement terms until completed.

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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FAREHAM

BOROUGH COUNCIL

Report to Audit and Governance Committee

Date: 23 November 2020

Report of: Deputy Chief Executive Officer

Subject: STATEMENT OF ACCOUNTS

SUMMARY

Local Authorities have a duty to prepare and publish an annual Statement of Accounts in accordance with regulations issued by the Secretary of State. Members are requested to formally approve the annual Statement of Accounts for 2019/20 that is attached to this report.

The Audit and Governance Committee's areas of responsibility for the Council's Financial Reporting are: -

- a) to review the annual statement of accounts. Specifically, to consider whether appropriate accounting policies have been followed and whether there are concerns arising from the financial statements or from the audit that need to be brought to the attention of the council;*
- b) to consider the external auditor's report to those charged with governance on issues arising from the audit of the accounts.*

RECOMMENDATION

It is recommended that the Audit and Governance Committee approves the audited Statement of Accounts for 2019/20, attached as Appendix A, for publication, subject to the external auditors completing their outstanding procedures and any further amendments being agreed by the Deputy Chief Executive Officer in consultation with the Chairman of the Audit and Governance Committee.

INTRODUCTION

1. The Accounts and Audit Regulations 2015 require every local authority to produce and publish an annual Statement of Accounts in accordance with “proper practice” and prescribes the procedures to be followed preceding the publication of the accounts and sets out the dates by which the accounts must be approved and published.
2. The Local Government Act 2003 (Section 21) defines proper accounting practices for this purpose to be the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice on Local Authority Accounting (the Code) for the relevant year. The audited Statement of Accounts 2019/20 set out in Appendix A has been prepared in accordance with the Code.
3. Due to Covid-19, the Accounts and Audit Regulations 2015 have been amended to extend the publication date for audited accounts from 31 July to 30 November 2020.

THE PURPOSE OF THE STATEMENT OF ACCOUNTS

4. The Code is based on approved accounting standards so that an authority’s accounts present a “true and fair view” of the financial position and transactions of the authority. It has been prepared on the basis that the purpose of a local authority’s published Statement of Accounts is to give electors, Members and other interested parties clear information about the authority’s finances.

THE AUDIT PROCESS

5. The Council’s external auditors, Ernst & Young LLP are responsible for forming an opinion on the Statement of Accounts and certifying that it is a “true and fair” view of the financial position of Fareham Borough Council as at 31 March 2020.
6. The auditors carried out a detailed audit during July 2020 and October 2020 in accordance with the Code of Audit Practice. All audit differences identified during the audit, and listed in the external auditor’s Audit Results Report, have been adjusted for.

KEY ISSUES AND MATTERS OF INTEREST

7. The Statement of Accounts includes a Narrative Report which highlights the Council’s performance and achievements during 2019/20. Key issues and matters of interest are:
 - **New Community, Arts and Entertainment Venue** – A new operator was appointed in 2019/20 to work with the Council to develop a new vision for its community, arts and entertainment venue. Capital expenditure of £427,000 has been utilised in the year.
 - **Solent Airport at Daedalus** – Developments at the airport continued in 2019/20 with further investment in assets and infrastructure across the site of £361,000.

- **Welborne** – In 2019/20 the Council continued to resource activities to support the development of the new community of Welborne. As part of this initiative £1.2 million Capacity Funding and Garden Towns and Village funding has been received, including £150,000 in 2019/20.
- **Investment Property** – There was further investment of £13.8 million in two commercial property acquisitions in Fareham and Havant to provide an on-going source of income for the General Fund.
- **Community Infrastructure Levy (CIL)** – The Council raised £1.3 million from CIL during 2019/20 (£1.5 million in 2018/19). This has been transferred to the Council's capital reserves. £870,000 of CIL reserves were used to fund the new community, arts and entertainment venue, bus shelter improvements, the Holly Hill cemetery extension and play area upgrades.
- **Housing Stock** – During the year, 16 homes were sold under the right to buy scheme (13 in 2018/19) and 8 homes were bought back using housing capital receipts (8 in 2018/19). £1.8 million has been spent on new housing developments with the help from funding from Homes England.
- **Assets** – The overall value of the Council's long-term assets increased by £28.3 million (decrease by £10 million in 2018/19) mainly due to increases in long term investments (£8.7 million), investment properties (£7.4 million), other land and building (£7.3 million) and Council dwellings (£2.7 million).
- **Capital Receipts** – The Council generated capital receipts of £1.9 million (£3.7 million in 2018/19) from the sale of Council dwellings (£1.5 million) and land and buildings (£0.4 million).
- **Borrowing and Investments** – The Council's investments increased from £13 million to £15.9 million at the year end and short-term borrowing increased from £5.5 million to £17.7 million.
- **Reserves** – The General Fund reserve decreased due to an overall overspend on the revenue budget of £178,000 in the year. Council reserves now total £155.3 million, £45.1 million of which are in 'usable' reserves which can be used to fund Council services; subject to certain limitations and the need to maintain prudent reserves for financial stability. This is an increase of £3.1 million compared to last year.
- **Housing Revenue Account** – The Housing Revenue Account decreased in year by £503,000 (decrease of £293,000 in 2018/19) but overall Housing Reserves increased by £0.7 million to £12.9 million.
- **Pension Fund** – The Council's pension fund liability increased by £3.1 million to £62.3 million (£3.6 million decrease in 2018/19). The main reasons for the change are due to decreases in the return on assets and increases in the current service cost.

8. The Statement includes sections (pages 21-24) on the financial outlook for the future and position of the Council as a Going Concern (page 33) as at the end of March 2020 and projecting forward to 2021 taking into consideration the impacts of the Covid-19 pandemic. Details are provided of the actions that have been taken and which are in progress to protect the Council's financial standing.

THE CONTENT OF THE STATEMENT OF ACCOUNTS

9. The following paragraphs give a brief outline of the various sections included within the Statement of Accounts.

Narrative Report

10. The Narrative Report provides information about the Council's main objectives and strategies and the principal challenges that it faces. It also provides a commentary on how the Council has used its resources to achieve its desired outcomes.
11. The Narrative Report is not formally part of the Statement of Accounts and is not covered directly by the statutory requirements for an audit opinion.

Statement of Responsibilities for the Statement of Accounts

12. The statement sets out the responsibilities of the Council, the Audit and Governance Committee and the Deputy Chief Executive Officer for the production and approval of the accounts and is signed by the Deputy Chief Executive Officer. It also carries the signature of the Chairman of the Audit and Governance Committee to confirm the approval of the Statement of Accounts by the Audit and Governance Committee.

Core Statements

13. The following core accounting statements are included:

Comprehensive Income and Expenditure Statement - This statement brings together all of the Council's day to day (revenue) income and expenditure, including the Housing Revenue Account (HRA), as well as transactions relating to the value of long-term assets and pension costs.

Balance Sheet - The Balance Sheet shows the assets that the Council owns, how much the Council owes or is owed, and the Council's net assets (sometimes referred to as net worth).

Movement in Reserves Statement - This statement shows the movement between the Council's reserves (which are split between usable and unusable) and the total adjustments needed (in respect of revaluations, capital items and notional pension costs) to the reported surplus and deficit on the Comprehensive Income and Expenditure Account, to arrive at the actual movement in the General Fund Balance.

Cash Flow Statement - This statement shows the amount of cash received and paid out during the year and the net inflow and outflow of cash and cash equivalents.

Notes to the Core Financial Statements - This section includes the accounting policies and explanatory information relating to the core statements.

14. The following supplementary statements are also included:
- HRA Income and Expenditure Account
 - Statement of Movement on the HRA Balance
 - Collection Fund (Council Tax and Business Rates)

Glossary

15. This section of the Statement of Accounts sets out a detailed explanation of the various accounting terms that are used in the document.

Independent Auditor's Report

16. The external auditor's opinion on the accounts and their view as to whether the accounts are a true and fair view of the Council's financial position and performance for the year. This will be included within the final published document.

RISK ASSESSMENT

17. There are no significant risk considerations in relation to this report.

CONCLUSION

18. It is recommended that the Committee approves the audited Statement of Accounts for 2019/20, attached as Appendix A, for publication, subject to the external auditors completing their outstanding procedures and any further amendments being agreed by the Deputy Chief Executive Officer in consultation with the Chairman of the Audit and Governance Committee.

Background Papers: None

Reference Papers: The Accounts and Audit (Coronavirus) Amendments
Regulations 2020 (SI 2020/404)
Code of Practice on Local Authority Accounting 2019/20

Appendices: Appendix A - Statement of Accounts 2019/20

Enquiries: For further information on this report please contact Caroline Hancock.
(Ext 4589)

**FAREHAM
BOROUGH
COUNCIL
STATEMENT OF
ACCOUNTS
2019/2020**

**FAREHAM
BOROUGH COUNCIL**



Fareham Borough Council's Statement of Accounts has been prepared in accordance with the requirements of the Chartered Institute of Public Finance and Accountancy (CIPFA).

This narrative report gives an overview of the Council's purpose, financial position and performance. Its aim is to demonstrate to residents and stakeholders how the available resources are being used to deliver the corporate plans for the Borough.

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1

NARRATIVE REPORT AND WRITTEN STATEMENTS

NARRATIVE REPORT

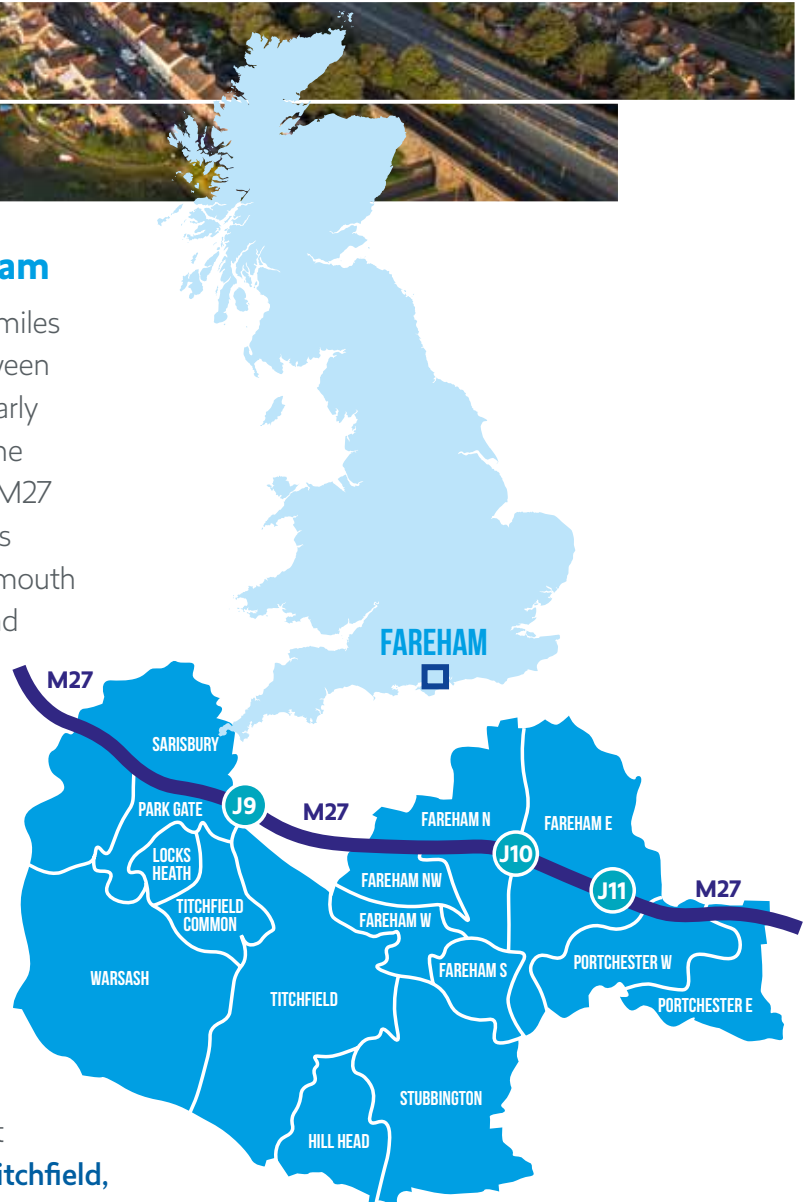


Introducing the Borough of Fareham

Fareham comprises approximately 30 square miles located on the south coast of Hampshire between Portsmouth and Southampton and is particularly well connected for travel with easy access to the area's major road network which includes the M27 and M3 motorways. Fareham railway station is served by trains to Southampton and Bournemouth or the Midlands to the west, or Portsmouth and London to the east. There is also easy access to the ferry ports and Southampton International Airport.

Benefiting from its rich heritage as a market town, Fareham is well-placed for a range of leisure activities for residents and visitors. It enjoys an enviable location with the seafront to the south and open countryside to the north and there are many parks and community spaces.

The Borough has 15 wards across five distinct communities: **Fareham town, Portchester, Titchfield, Western wards, Hill Head and Stubbington.**




RESIDENTS


Population of 117,000 expecting to rise to 130,000 by 2037.

Approx. 50,000 households.

Largest rise in Hampshire of residents aged 85+ in the last 20 years.

Reduction in the number of people of working age, particularly aged between 25 and 39.

 Approximately 25% of households are people living alone.

 80% of homes are owner occupied.

 94.7% of the population is white British against a national average of 79.8%.

BUSINESSES

Approx. 3,200 businesses.

Part of Solent Enterprise Zone encouraging and supporting a thriving aviation-led employment area.

Just 0.4% of residents were claiming Jobseeker's Allowance against a national average of 0.7%.

Higher than south east average of residents educated to college level and above.

Fareham is a growing Borough both in terms of residents and the local economy. To help meet the future housing need this trend will create, a new community, Welborne, is being developed in the Borough to provide up to 6,000 homes. Welborne will be a distinct community located to the north of the M27 and has been awarded status as one of the Government's first new garden villages.

Putting customers at the heart of our organisation

In 2013 the Council embarked on a new approach to delivering services. Systems Thinking puts the customer at the heart of service delivery and looks

at everything we do through their eyes. Rather than follow processes that have 'always been done that way' or pass customers from department to department, officers now take ownership of a customer to ensure, wherever possible, that a customer's needs are met and they only have one officer as their point of contact.

Since 2013, services have been reviewed and redesigned adopting this new way of working. We believe our new approach makes it easier for our customers to do business with us and easier for us to do the right thing for our customers. It also leads to a more cost-effective provision of services as we concentrate on what matters to customers and drive out costs associated with 'failure work' (where we have failed to address the customer's needs at the earliest opportunity).



OUR VISION

To make Fareham a prosperous, safe and attractive place to live and work

CORPORATE VALUES

Listening and being responsive to our customers.

Recognising and protecting the identity of existing communities.


Enhancing prosperity and conserving all that is good.

Being efficient, effective and providing value for money.

Leading our communities and achieving change for the better.

PRIORITIES

Providing Housing Choices. 

Protect and enhance the environment. 

Strong, safe, inclusive and healthy communities. 

Maintain and extend prosperity. 

Leisure opportunities for health and fun. 

Dynamic, prudent and progressive Council. 

Preparing for the future

The Council's Vision, Values and Priorities are set out in the Corporate Strategy which can be viewed in full on the Council's website. In 2017, following public consultation, the Corporate Strategy was revised to ensure it is fit for purpose for the next six years in terms of relevance, threats and opportunities. It recognises the constraint of continued reduction in Government funding and seeks to continue to deliver priorities but within a balanced and sustainable budget. The Council's Vision, Values and Priorities have been defined above. A series of actions are set for the coming years under each priority heading and these are refreshed each year. For example, in 2019/20 new actions were added to mitigate and adapt to the impacts of climate change in Fareham.

The Council

Fareham Borough Council is a 'shire district' Council which means some services are delivered by Hampshire County Council. It operates a leader and cabinet model of political management. This means that a councillor is appointed as leader of the executive (cabinet). The leader then has responsibility for appointments to the cabinet, the allocation of portfolios and the delegation of executive functions. A Mayor is also elected by his/her fellow councillors each year to represent the Council at civic events and functions and organise events to raise funds for nominated charities.

MEMBERS

15 wards
31 Councillors
3 political groups:
Conservative (majority)
Liberal Democrats
Independents

PARTNERSHIPS

10 significant partnerships including shared services for:
Legal Services
Building Control
Environmental Health
Coastal Protection
CCTV
Portchester Crematorium

EMPLOYEES

Approximately 433 employees (333 full time & 100 part time)
8 employees undertaking apprentice training
3 Directors and 1 Deputy CX
9 Heads of Services
3 Strategic Lead Officers

ORGANISATION

5 Directorates:
Deputy Chief Executive (encompassing Finance and Resources and Fareham Housing)
Planning & Regulation
Street Scene
Leisure & Community Support Services

ORGANISATIONAL SUMMARY

Eight committee portfolios, led by Members, oversee more than 60 functions of the Council which deliver services such as Planning, Leisure, Environmental Health and Housing. Scrutiny Panels are in place for each of the six Executive Portfolios, which lead on the delivery of the Corporate Priorities.

The day to day delivery of services is overseen by the Chief Executive's Management Team. In 2019/20 this was made up of the Chief Executive Officer, the Deputy Chief Executive Officer and three Directors. This was a change from the previous year (three Directors and two Heads of Service) in response to the retirement of the Managing Director of Fareham Housing who was not replaced. This resulted in an overall increase in Senior Officer emoluments which was offset by reducing the number of Heads of Service from 12 to 9.

Most employees are based at the Civic Offices or the Council's Depot, both of which are based in Fareham. Some services, however, are delivered by working in partnership with other organisations, or by outsourcing to private contractors. The Council actively seeks shared service and partnership opportunities where they improve resilience, drive efficiency and improve service delivery. The performance of all partnerships is subject to a strict monitoring programme and constantly reviewed to ensure they remain beneficial to the Fareham community and financially robust.

Highlights for partnerships, shared services and outsourced services in 2019/20 include:

- a new operator was appointed in 2019/20 to work with the Council to deliver a new vision for the primary community, arts and entertainment venue in the Borough;
- a notification was received from Hampshire County Council to end the agreement to provide on-street parking services to them from April 2020. This would have led to a potential shortfall of £130,000 of income to the Council. The parking team has therefore been reduced and alternative sources of parking income are being reviewed to address the shortfall;
- a proposal was received from Hampshire County Council to change the Waste Management arrangements under the Project Integra partnership from April 2021. These changes would potentially lead to additional costs of £0.5 million falling on the Council. The Council is therefore working with all members of Project Integra to see how the impact can be reduced;
- a new contractor was appointed to deliver Void Property Maintenance and Component Improvements from April 2019 for a period of three years. This is yielding savings for the Housing Revenue Account;
- the partnership between councils and Dial-A-Ride was renewed which included provision of a new bus;
- the legal services partnership with Southampton City Council was again nominated in 2019/20 as the Legal Team of the Year in the Local Government Legal Awards.



For more information about our Governance arrangements see the Annual Governance Statement on our website under 'about the council'.

2019/20 Financial Position: overview

Despite reductions in funding and other pressures, the Council has continued to perform well, improve services and deliver capital projects and priorities for the Borough during 2019/20 including:

Driving forward the Welborne Plan to deliver more housing in the Borough, including achieving outline planning permission for the development in October 2019.

Working with the new operator to develop a new vision for its community, arts and entertainment venue.

Investing in the infrastructure and assets at the Solent Airport.

New social housing developments progressed at Bridge Road and Highlands Road, which will open in 2020/21 providing five new houses and 18 new flats.

This has been achieved by maintaining a Medium-Term Finance Strategy to ensure we remain financially robust and stable and can finance the delivery of the Council's corporate plans.

The table below summarises the revenue outturn position¹ on the General Fund for the year compared to last year. Although there has been a slight decrease

in gross spend compared to last year, spend again exceeded the revised budget. This has been partially offset by an increase in business rates collections, resulting in a net overspend of £178,000 for the year.

The following risks and pressures were recognised when setting the original and revised 2019/20 budgets and Council Tax:

Reduction in non-specific Government Funding of £141,000 (14%).

Reduction in income from the Council's interest in Fareham shopping centre by £250,000, to reflect the current lease arrangements and occupancy levels.

£500,000 to be put aside in reserves for maintenance of assets.

Increase in payments to and on behalf of employees of £355,000.

Projected reductions of income generated from car parks of £104,000.

Increase of £206,000 in the Minimum Revenue Provisions (MRP) to cover the borrowing costs of recent purchases of investment properties and construction at the Solent Airport.

	2018/19 Actual	2019/20 Budget	2019/20 Actual
Gross Cost of Services	£56,159,000	£45,917,000	£55,616,000
Net Cost of Services	£20,765,500	£15,591,000	£25,486,000
Other Provisions	-£9,336,500	-£993,000	-£10,147,000
Non-Service Specific Income	-£2,467,000	-£5,279,000	-£5,400,000
Net Underspend (+)/Overspend (-) on Services	£349,000	-	-£178,000
Net Budget	£9,311,000	£9,319,000	£9,761,000
Core Funding Sources			
Revenue Support Grant	£0	£0	£0
Business Rates	£2,664,500	£2,550,000	£2,992,000
Council Tax	£6,672,000	£6,875,000	£6,875,000
Other Funding Sources	-£25,500	-£106,000	-£106,000
	£9,311,000	£9,319,000	£9,761,000

¹These figures are those used in the reports to members and will differ from the Comprehensive Income and Expenditure Statement because of the way in which the information is presented to meet Statement of Account requirements.

The risks and pressures were managed by prudent planning to produce a balanced budget which included:

Development of an Opportunities Plan in 2018/19, in partnership with all Heads of Service in the Council, which identified projects which could generate income or reduce costs by £1.5 million over the next two years. Members approved the use of reserves to fund a Project team for two years to drive the delivery of the plan. £587,700 of savings from the first parts of the plan were applied to the budget for 2019/20.

Continued use of investment properties as a funding stream to generate income of £2,150,000.

Increasing fees and charges and introducing new charges where it was felt that the market was robust enough not to cause a detrimental effect.

Increasing Council Tax for the fourth year running by the maximum £5; this represented 14% of the funding sources used.

Continuing to adopt Systems Thinking across many of our services to reduce costs whilst improving customer satisfaction.

Use of prudent low cost borrowing.

However, during the year, budget monitoring identified that the Council was struggling to keep to the budget set and a significant overspend was forecast. A “Living within our Means” Strategy was therefore implemented and monitored monthly by the Chief Executive’s Management Team to turn the financial position around by the end of the year, resulting in a significantly reduced overspend of only £178,000.





The General Fund Reserve has decreased in the year by £375,000. Total 'useable' reserves overall have increased by **£3.1 million** to a total of **£45 million**. This includes a provision of **£2.4 million** put aside in the Spending Reserve for unforeseen fluctuations in revenue expenditure and income which represents 5% of planned gross expenditure.

The Council raised **£1.3 million** from Community Infrastructure Levy (CIL) during 2019/20 (£1.5 million in 2018/19). This has been transferred to the Council's capital reserves and is one of the main funding sources earmarked for the new community, arts and entertainment venue. A total of **£870,000** CIL reserves were used in the year including £427,000 towards delivering the new community, arts and entertainment venue, £11,000 to fund the bus shelter improvement programme, £221,000 on the extension to the Holly Hill cemetery and £211,000 on play area upgrades at Portchester, Titchfield, Sarisbury and Fareham.

The overall value of Council long term assets has increased in value by **£28.3 million**.

We are aware that further challenges lie ahead including the continued reduction in Government funding and the impact of the Coronavirus pandemic on the Council's income streams for 2020/21 and the long-term impact on the economy and the finances of the government. We are therefore refreshing the Medium-Term Finance Strategy earlier to take account of these new challenges.

This was the second year of the new department of Fareham Housing which has continued to make changes to maintain the robustness of the Housing Revenue Account. Although the value of the Housing Revenue Account Reserve has again decreased, the total of all the Housing Reserves has increased by **£0.7 million**.

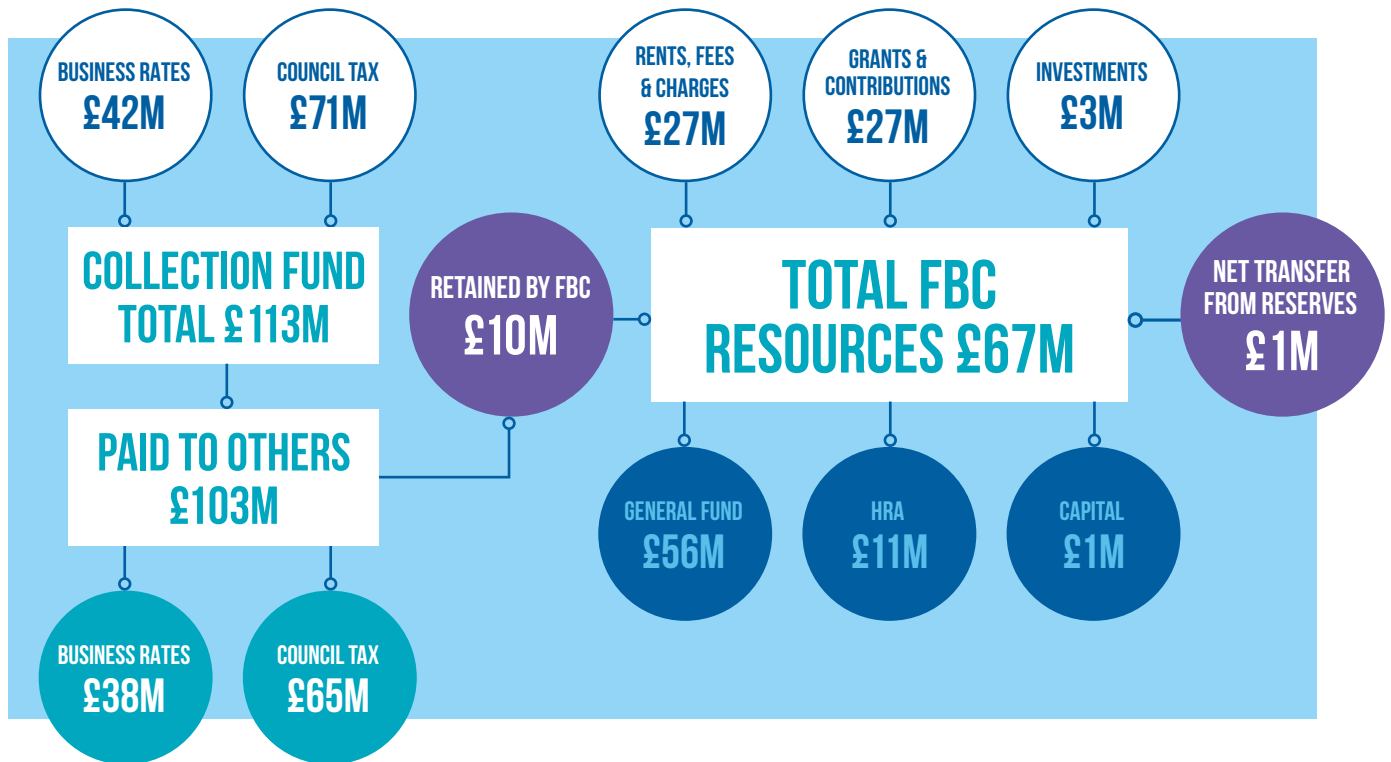
The following sections provide further details of the financial and non-financial performance of the Council.

Revenue Income & Expenditure 2019/20

Sources of Revenue Funding

The diagram below gives an overview of the Revenue flows in and out of the Council in the General Fund and Housing Revenue Account

in the year. It shows that, although the Council manages the Collection Fund cash flow for the area, it only retains a small proportion for our use.



Central Government Funding

2019/20 was Year 4 of the Government's finance settlement. This meant the Council did not receive Revenue Grant Support (RSG) as the final payment of £288,000 was received in 2017/18. Although the RSG settlement for 2019/20 was set at -£400,000 the government did not require this amount to be paid over.

The only non-specific Grant funding received from the Ministry for Housing, Communities and Local Government for the year was a New Homes Bonus of £821,000. This had again reduced by another £141,000 (14%) under the revised 2017 scheme and was the lowest payment received for nine years, due to two high years of new home builds dropping out of the calculation.

Government Grants to Services

It was another successful year in terms of securing other specific service grant funding. Examples of how this has allowed us to increase spending across services are shown below.

Funding to fully cover the cost of Disabled Facilities Grants awarded in the year of £453,000

Funding towards homelessness initiatives of £294,000

Funding towards coastal protection initiatives of £69,000

Further funding of £53,000 towards the Air Quality improvement Plan for the A27 in the town centre, which has included 30 taxi drivers replacing their older diesel vehicles with Ultra Low Emission vehicles (ULEVS) or hybrid vehicles.

Income from Services

Discretionary fees and charges were generally increased in 2019/20 where it was deemed feasible to do so. However, whilst some income streams increased in the year, a number of others fell. These changes led to a total income of **£6.6 million** in the year which is a 14% decrease on 2018/19.

This was partially offset by an increase in rental and sales income, giving an overall income from services of **£16.1 million**; a decrease of 4% on 2018/19.

Gross income from the trade waste service increased by £58,000.

Planning application income fell by £53,000 (9%) compared to 2018/19. This is due to Natural England requiring all further development on the Solent coastline to be nitrogen neutral leading to a cessation of planning permission being granted for new residential and overnight accommodation.

Our investment portfolio was expanded and generated a net income of £3 million in the year for the Council – an increase of 30%.

Parking income fell by £62,000 (3%) compared to 2018/19.



Council Tax and Business Rates

The Council increased the rate of Council Tax by £5 for the fourth time since 2016/17. The increase was kept within Government referendum limits. The overall level for Council Tax for a band D property in the Borough was £1,599.38 of which £160.22 related to Fareham Borough Council funding. This compared to £1,512.62 and £155.22 in 2018/19 at which point we had

one of the lowest council taxes for a district council when parish precepts are taken into account.

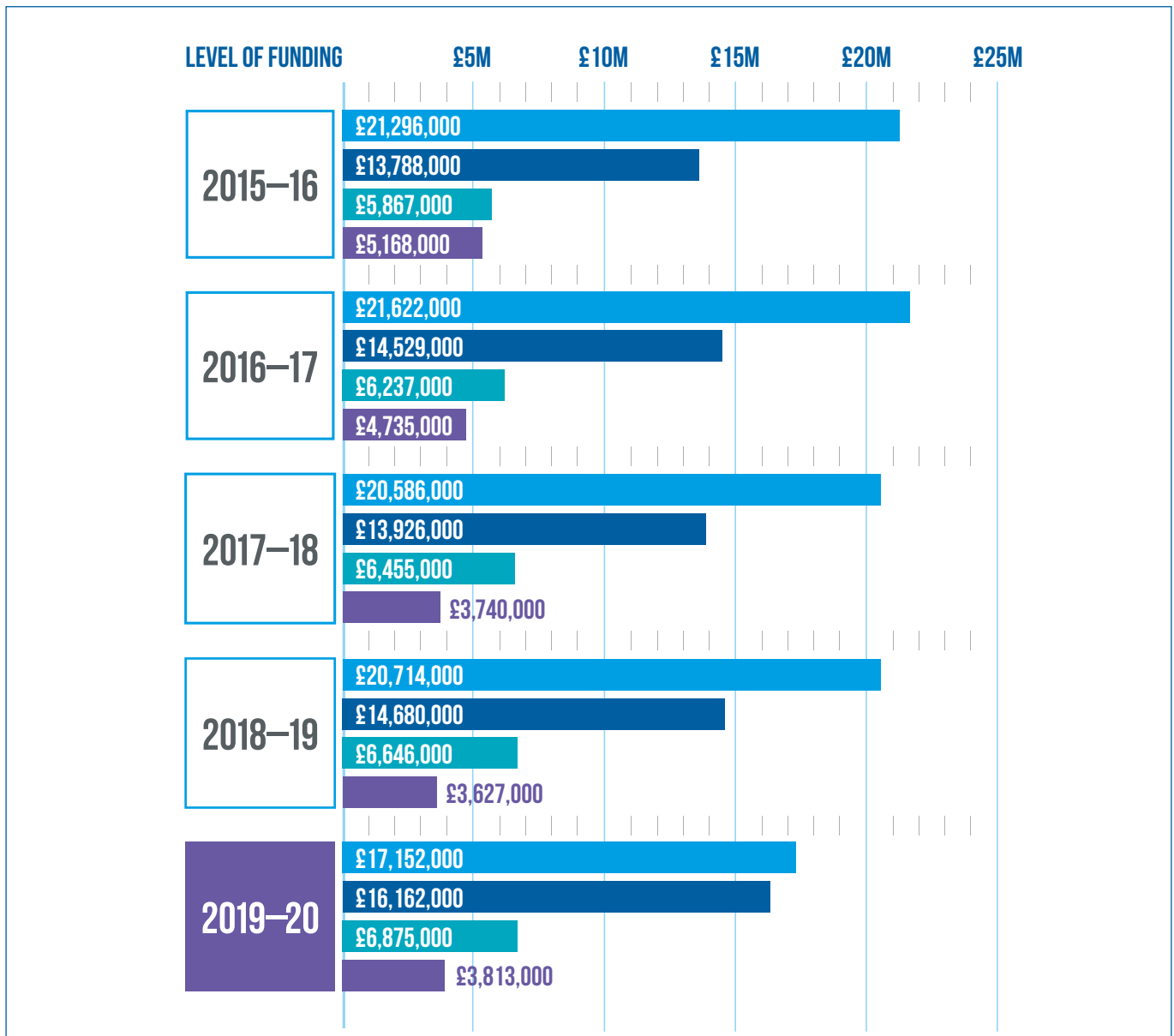
Business rates income due increased in the year by £330,000 (12%).

As at the end of March 2020 we had collected 99.44% of Council Tax due and 98.9% of Business Rates due.

Trends in sources of funding

The diagram below summarises the reduction in funding from the Government and the greater reliance now placed on local sources of income.

SPECIFIC GOVERNMENT GRANTS TO SERVICES
INCOME FROM SERVICES (INCLUDING RENTS, FEES AND CHARGES)
COUNCIL TAX PAYERS
CORE GOVERNMENT FUNDING (INCLUDING BUSINESS RATES)

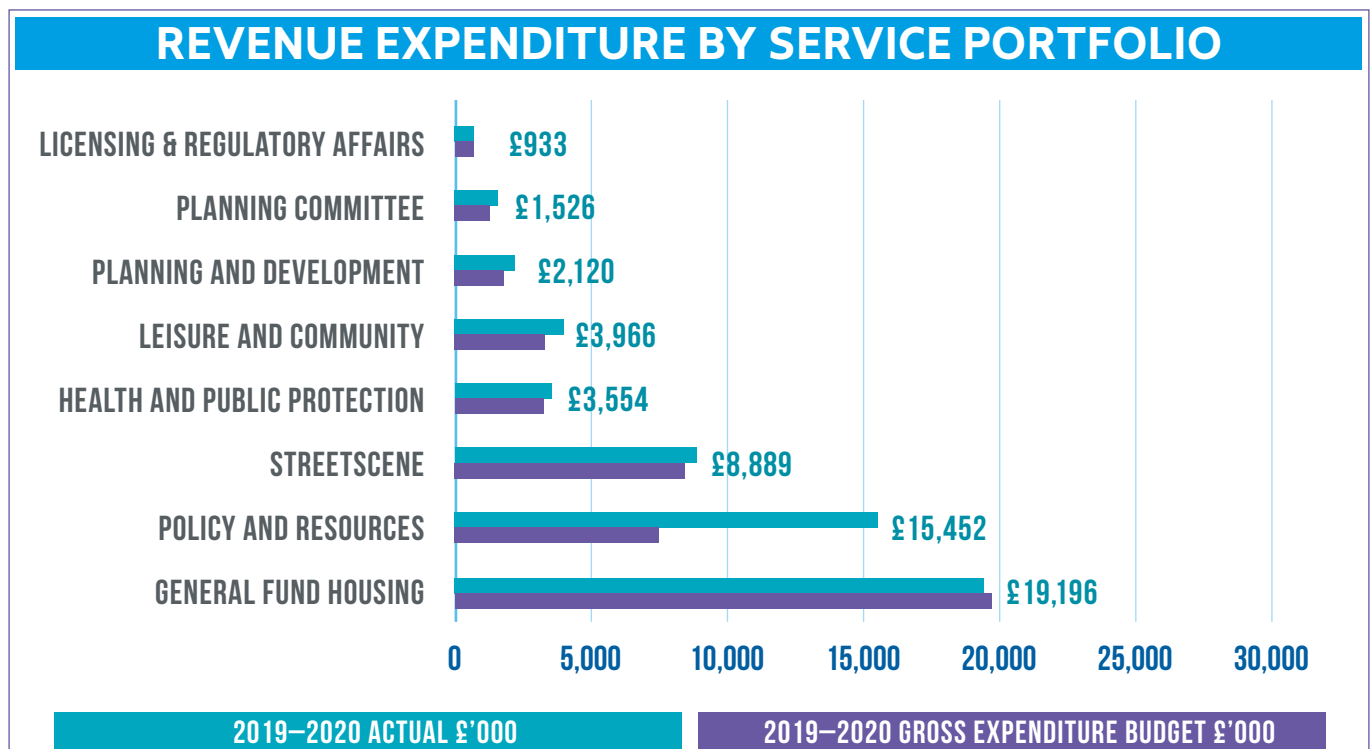




Revenue Spending on Services in 2019/20

The following chart shows how money has been spent across the Council's services.

Spend on employees was **27%** of the total spend compared to **25%** last year.



Snapshot of services provided in 2019/20



Service changes, challenges and successes

It was a year with a number of challenges, not least the need to deliver a European Parliamentary Election in May and a UK Parliamentary Election in December leading to the country leaving the European Union. There was also a gathering momentum behind the climate change agenda leading to the Council formally announcing its ambition to achieve carbon neutrality and to work with the community to understand and implement actions to increase climate change resilience and adaptations.

Other financial and non-financial service changes, challenges and successes included:

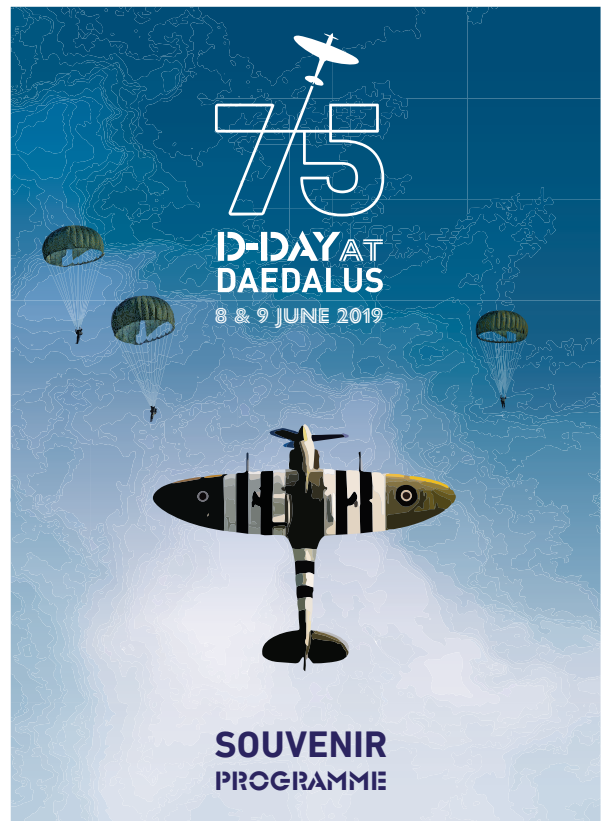
- the Council has committed to a review of its Local Plan to reflect emerging housing and employment needs until 2036. Work has therefore been carried out to develop a new plan for submission to the inspectors in the autumn

of 2020. A financial strategy behind the plan has also been developed to tackle the funding needs of the peaks and troughs in this work;

- the Council has been working with other bodies in the Solent area, including the Hampshire and Isle of Wight Wildlife Trust, to identify how the Natural England judgement on nitrogen neutrality can be addressed to allow residential developments to recommence;
- the programme of ‘Systems Thinking’ interventions has continued with reviews concluding in the Building Control Partnership and commencing for the Freedom of Information process;
- we have seen a decrease in the amount of housing benefit paid and reclaimed through the Department for Works and Pensions in line with projections as claimants move to Universal Credit;



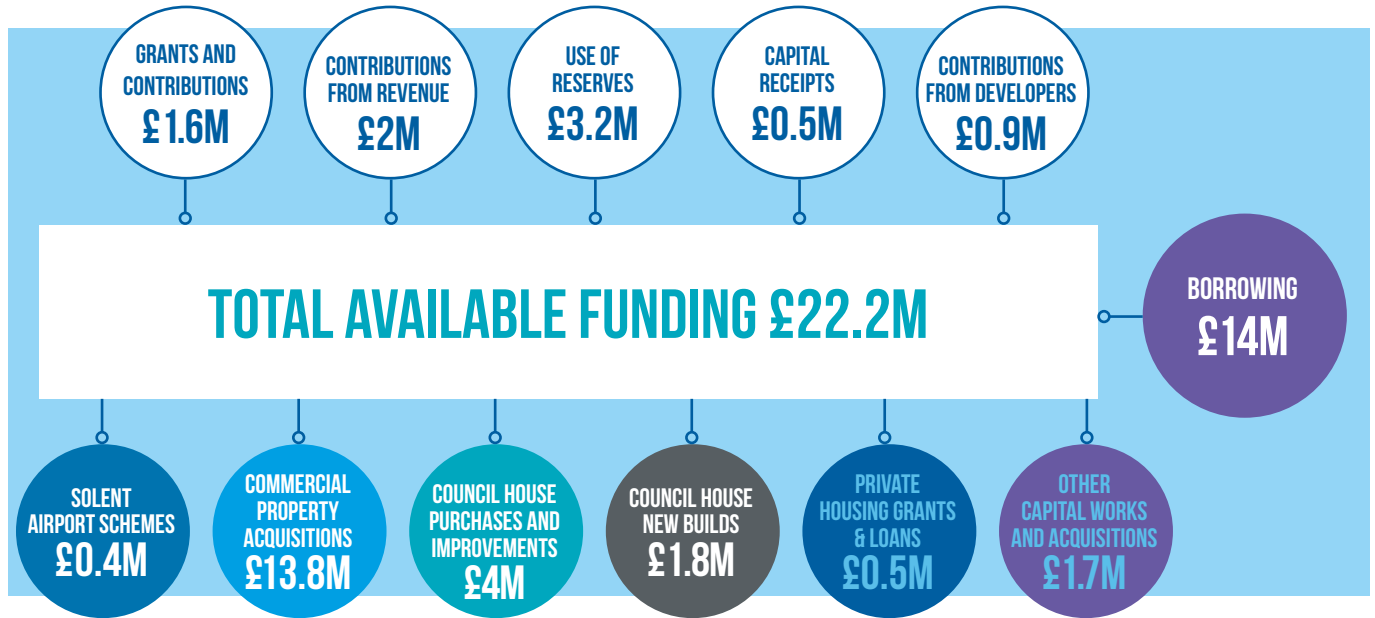
- the Council delivered a successful event at Solent Airport in commemoration of the 75th Anniversary of the D Day Landings;
- it was another successful year for the Portchester Crematorium which generated a surplus leading to a £160,000 contribution to the Council;
- during the year, 16 council homes and no shared ownership property were sold under the Right to Buy scheme (13 in 2018/19). Eight other properties were bought back;
- there were high levels of public engagement throughout the year. Almost 7,000 people responded to 20 consultations and events including responses to the Local Plan, Gate Guardian at the Solent Airport and to the Warsash and Titchfield Forum proposals.



Major projects and Capital finances 2019/20

2019/20 was a significant year for the Capital programme with spend rising to over **£22 million** compared to **£7 million** in the previous year.

A high proportion of this, 62%, related to further investment in two Commercial Property acquisitions in Fareham and Havant to provide an on-going source of income for the General Fund. .



Significant projects

WELBORNE

In 2019/20 the Council continued to resource activities to support the development of the site north of the Borough to deliver up to 6,000 more homes. The new community of Welborne has been given 'Garden Village' status by the Government. As part of this initiative there have been specific funding opportunities including:

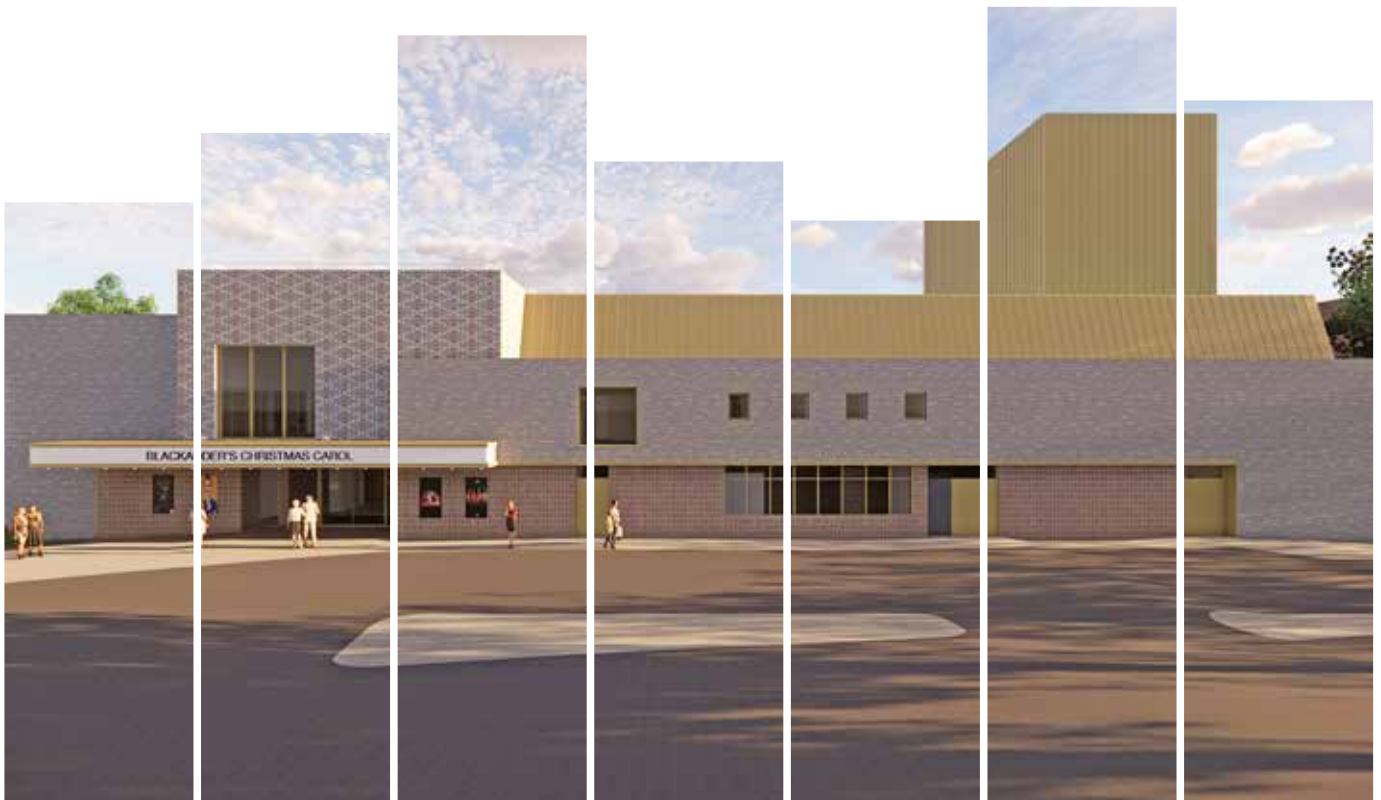
- **£1,173,570 Capacity Funding and Garden Towns and Village funding received (including £150,000 for 2019/20);**
- **potential recoverable grant of up to £9.9 million, towards the motorway junction works.**

£622,145 of grant funding has now been used to progress the work streams involved with the development including:

- **working with the master developer to achieve outline planning permission for the Scheme from the Planning Committee in October 2019;**

- **working with consultees and the master developer to resolve the remaining delivery issues for the Section 106 agreement and the reserved matters application;**
- **assisting with developing and refreshing accompanying strategies for the community development, placemaking and housing mix for the new community, including a Strategic Design Code for the development.**





NEW COMMUNITY, ARTS AND ENTERTAINMENT VENUE

Ferneham Hall, in the Borough, is being remodelled to deliver the vision of a new community, arts and entertainment facility for Fareham. 2019/20 has been a significant year in realising this ambition, and capital spending of £427,000 has been utilised to:

- tender and appoint a long-term operator for the venue and agree an operating model which will reduce the level of subsidy needed to support the facility;
- work with the operator to design the new venue within an approved budget of over £12 million;
- submit and gain planning permission for the remodelled building;
- decommission the previous building in January 2020 with the employees being redeployed where possible.

SOLENT AIRPORT/DAEDALUS

Developments at the former naval airfield at Daedalus have continued in 2019/20 and there was a further fall in the net cost of the site (£213,000).

Contributions to the running costs of the airfield in 2019/20 included:

- hangar and property rents (£883,000);
- site fees and charges, including landing fees and hangarage (£228,000);
- Fareham Innovation Centre gross fees and charges (£952,000);
- Service Charges (£94,000);
- net income from fuel sales (£67,000).

Activity in the year included:

- further investment in the assets and infrastructure across the site of £361,000;
- maintaining 70% occupancy throughout most of the year of the Fareham Innovation Centre and extension;
- progressed construction of the IFA2 electricity converter station under an agreement with the National Grid to increase clean energy security for the UK by 2020/21. In exchange they are making a significant contribution to the provision of Daedalus Common;

- attainment of an ANSP (aeronautical navigation service provider) licence, leading to the FISO (flight information safety officer) air traffic control going live;
- major lease completed on a business hangar;
- building lease entered into for a self-build industrial unit (approx. 31,000 sq ft);
- planning consent obtained (by third party) for self build unit (approx. 31,000 sq ft).

OTHER SIGNIFICANT CAPITAL PROJECTS

- £1.8 million has been spent on new housing developments, with the help from funding from Homes England. The scheme at Bridge Road is nearing completion and will be ready for occupancy in 2020/21;
- a further £212,000 has been spent as part of the five-year play area refurbishment programme;
- £237,000 has been spent modernising and improving the workspace at the Council's depot;
- a further £338,000 has been spent on the ICT development programme upgrading servers, computers and phones across the organisation;

- the extension to Holly Hill cemetery has been completed at an additional cost of £220,000 in 2019/20. This will provide an extra 350 burial spaces.



Outlook for the Future: risks and pressures

The Medium-Term Finance Strategy for 2020/21 recognised that the Council will continue to face financial pressures. At that time, we were forecasting a £489,000 deficit by 2021/22 even if council tax continued to rise by £5 a year.

Particular risks and pressures include:

- the full impact of the Fair Funding Review on the Council's core funding sources is not known. However, the New Homes Bonus payments are expected to carry on reducing and end by 2023/24;
- the funding needs of the Council's corporate priorities have not been fully costed and built into the budgets;
- demand for Council services remains volatile in some services, and this may be heightened due to economic changes;
- while the Council's capital resources are expected to exceed planned capital expenditure at the end of the programme period, future spending requirements could give rise to a shortfall. It is therefore imperative that capital reserves are replenished whenever possible in order to meet the future spending needs;
- Hampshire County Council is also having funding pressures, and some of the decisions they may need to take may impact on Fareham Borough Council's finances;
- there are also significant future pressures that have not yet been built into the forecasts such as the impact of future population increases in the Borough on Council services.



Covid 19-Pandemic

At the end of 2019/20 it was clear that the Covid-19 pandemic would have a significant impact, both globally and nationally, and would therefore also have an impact upon Council services including

the way it operates, its resources and financial sustainability. The Council's initial focus in response to the pandemic included the following areas:

 <p>PROVISION OF SERVICES</p>	<ul style="list-style-type: none"> • Services were reviewed to identify those which should be suspended during lockdown. • New services that were required in the response phase were identified, including measures to support the most vulnerable in the community, as well as distributing £19 million of grants to local businesses, most under pressure due to lockdown.
 <p>COUNCIL'S HUMAN AND FINANCIAL RESOURCES</p>	<ul style="list-style-type: none"> • Upon lockdown, the Council's office-based workforce was mobilised to work from home, while those most at risk were shielded. To achieve continuity of service, new technology was deployed, but there has inevitably been an impact of service performance as teams managed the conflicting requirements of remote technology and home circumstances such as childcare/schooling responsibilities. • The Council's resources were rapidly redeployed to respond to the emerging pressures of the pandemic, reprioritising capacity to assist front line services (eg refuse collection and bereavement) and to deliver the new services identified above. • Special measures were instigated, to ensure that front-line employees were able to work safely during the lockdown period, in providing key public services (such as refuse collection and property maintenance).
 <p>SUPPLY CHAINS</p>	<ul style="list-style-type: none"> • Special arrangements were put in place for the Council's suppliers to ensure that appropriate support was available to the supply chain. • Detailed dialogue about supporting the Council's key partners during lockdown and beyond (such as maintenance contractors and Leisure Operators) were established (in accordance with PPN / 02/20).
 <p>DECISION MAKING</p>	<ul style="list-style-type: none"> • Arrangements were established using emergency powers to ensure that a high standard of governance could be maintained in relation to decision-making throughout the response period.

Long Term Risks to the Council

As the Council transitions from Covid-19 response to recovery, a number of medium/longer term issues have been recognised, that could have a significant bearing on the Council's financial position.

The greatest impact of the pandemic has undoubtedly been on local communities, and the Council has a key role to play, as a community leader, in supporting the community back to normality.

The economic uncertainty also presents a significant financial challenge as demand for welfare services increases and income-generating services may decline, particularly in those areas that are more susceptible to economic fluctuations (such as building regulations applications and commercial property). It is also possible that this could have a long term impact on availability of broader funding streams, such as Government support and business rates.

Reserves, Financial Performance and Reporting

The 2020/21 budget was set in February 2020 and was set to break even for the year. However, since the budget was set, the emergence of Covid-19 fundamentally changed the financial position for a period of at least three months until the end of June 2020. During this period, the Council has incurred approximately £260,000 of additional expenditure and has seen income fall by approximately **£1.6 million** in the areas of car parking, trade waste collection, commercial income, planning and business rate collection.



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FAREHAM BOROUGH COUNCIL

The impact of measures taken to support individuals and businesses were also evident in the Council's cash flow position, with relaxed payment terms, immediate payments to suppliers, suspended debt collection activities, etc all reducing the net cash available on a daily basis.

A wide range of measures have been introduced across Government to help alleviate the financial

impact upon local authorities, including general and specific grants, an income compensation scheme and relaxing financial controls on use of resources. However, it is clear that there will still be a requirement to meet some of the shortfall from the Council's revenue reserves in 2020/21 and beyond.

In recognition of the potential scale of the impact, the financial management and governance arrangements have been strengthened, particularly in relation to:

CASHFLOW MONITORING

SERVICE FINANCIAL PERFORMANCE

COVID-19 RESPONSE EXPENDITURE

INCOME COLLECTION AND ARREARS PERFORMANCE

GOVERNMENT FUNDING OPPORTUNITIES

Weekly monitoring and reporting to the S.151 Officer was instigated, together with a regular reporting structure to the corporate Covid-19 response group, led by the Chief Executive. These measures ensured a high degree of awareness and enabled the corporate team to closely manage the financial risks.



Financial Outlook and Action in Recovery Stage

In the next phase of the pandemic, the Council has developed clear overarching objectives for recovery, accompanied by more detailed thematic plans for recovery within each of the following topics; the Community, Council Services, Public Spaces, the Economy, Democracy and Finance.

These plans will guide the Council's activities, in relation to the pandemic, over the forthcoming period.

While a gradual return of most income streams is anticipated, and as costs return to normal operational levels, the Council is not anticipating that this will necessarily be to the levels previously observed or budgeted. For example, the current projected impact on general fund balances in 2020/21 is set to exceed **£1 million** and will continue into the following financial year. However, the established approach to maintaining a healthy level of reserves will ensure that this can be contained without a detrimental impact on services.

Going forward, the approach to Financial Recovery will be to assess the immediate financial impact and predict the longer term implications using the thematic Recovery Plans as the basis for this.

An "Emergency" revenue budget is being prepared for the General Fund and Housing Revenue Account, to reflect the immediate impact in 2020/21, which will be considered by the Council's Executive in September.

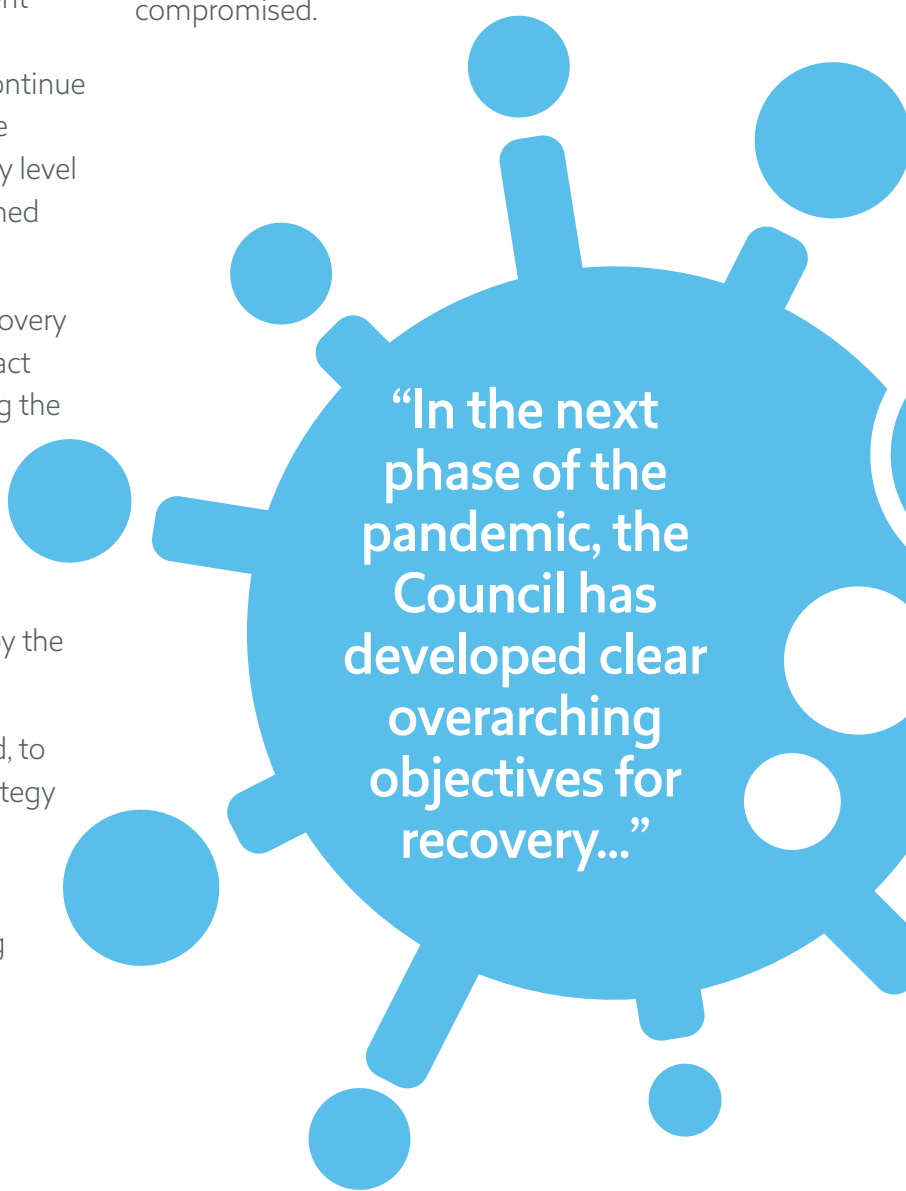
The longer-term impact will then be assessed, to inform a revised Medium Term Financial Strategy in October 2020.

The Financial Strategy will also take account of mitigating measures that are actively being considered, including revisiting the Council's Opportunities Plan for reducing costs and generating revenue.

Furthermore, the Council is reviewing the business cases for significant capital programme schemes in 2020/21, in light of the potential changes in the economy, to ensure that capital investment is appropriately prioritised and remains affordable.

The steps that have been taken during the response phase have ensured there is clarity about the scale of the financial exposure, together with the opportunities to minimise costs and secure Government funding support.

As we transition into Recovery, a robust and comprehensive approach to predicting the longer term financial impact has been established. This will ensure that measures can be taken, where necessary, to protect the Council's financial standing and ensure its position as a going concern is not compromised.



“In the next phase of the pandemic, the Council has developed clear overarching objectives for recovery...”

Explanation to accounting statements

The Statement of Accounts sets out the Council's income and expenditure for the year, and its financial position at 31 March 2020. It comprises core supplementary statements, together with disclosure notes. The format and content of the financial

statements is prescribed by the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom 2019/20, which is in turn underpinned by International Financial Reporting Standards.

The Core Financial Statements are:

COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

- Records all of the Council's income and expenditure for the year.
- Top half of the statement provides an analysis by Council Portfolio.
- Bottom half deals with corporate transactions and funding.

BALANCE SHEET

- A snapshot of the Council's assets, liabilities, cash balances and reserves at the year-end date.

MOVEMENT IN RESERVES STATEMENT

- A summary of changes to the Council's reserves over the course of the year.
- Reserves are divided into "usable" which can be invested in capital projects or service improvement and "unusable" which must be set aside for specific purposes.

CASH FLOW STATEMENT

- Shows the reason for changes in the Council's cash balances during the year and whether that change is due to operating activities, new investment, or financing activities (such as repayment of borrowing and other long term liabilities).

The **Notes** to these financial statements provide more detail about the Council's accounting policies and individual transactions.

The Supplementary Financial Statements are:

HOUSING REVENUE ACCOUNT

- Separately identifies the Council's statutory landlord function as a provider of social housing under the Local Government and Housing Act 1989.

COLLECTION FUND

- Summarises the collection of council tax and business rates, and the redistribution of some of that money to central government, Hampshire County Council, Hampshire Fire and Rescue Authority and the Police and Crime Commissioner for Hampshire.

A **Glossary of key terms** can be found at the end of this publication.

Statement of Responsibilities for the Statement of Accounts

The Council's responsibilities

The Council is required to:

- make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. This is the Deputy Chief Executive Officer;
- manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets;
- approve the Statement of Accounts. Responsibility for this has been delegated to the Audit and Governance Committee.

The Deputy Chief Executive Officer's responsibilities

The Deputy Chief Executive Officer is responsible for the preparation of the Council's Statement of Accounts which, in terms of the CIPFA Code of Practice on Local Authority Accounting in Great Britain ('the Code'), are required respectively to present fairly the financial position of the Council at the accounting date and the income and expenditure for the year then ended.

In preparing this Statement of Accounts, the Deputy Chief Executive Officer has:

- selected suitable accounting policies and then applied them consistently except where policy changes have been noted in these accounts;
- made judgements and estimates that were reasonable and prudent;
- complied with the Code.

The Deputy Chief Executive Officer has also:

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

Andrew Wannell CPFA
Deputy Chief Executive Officer

Date: 23 November 2020.

Approval of the Statement of Accounts

The Statement of Accounts was approved by Fareham Borough Council's Audit and Governance Committee.

Councillor Jonathan Butts
Chairman of the Audit
and Governance Committee

Date: 23 November 2020.



CORE FINANCIAL STATEMENTS

Comprehensive Income and Expenditure Statement

This statement shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation. The Council raises taxation to cover expenditure in accordance with regulations; this may be different from the accounting cost. The taxation position is shown in the Movement in Reserves Statement in note 10.

2018/19			2019/20			
Gross Exp £'000	Gross Income £'000	Net Exp £'000	Note	Gross Exp £'000	Gross Income £'000	Net Exp £'000
732	(246)	486		933	(504)	429
1,585	(612)	973	Licensing and Regulatory Affairs Committee	1,526	(573)	953
21,493	(20,453)	1,040	Planning Committee	19,065	(17,597)	1,468
4,325	(12,333)	(8,008)	Housing Portfolio	6,353	(12,268)	(5,915)
3,654	(1,660)	1,994	Housing Revenue Account	3,692	(1,456)	2,236
1,905	(2,440)	(535)	Leisure and Community Portfolio	2,120	(239)	1,881
13,265	(4,710)	8,555	Planning and Development Portfolio	8,632	(3,636)	4,996
3,728	(926)	2,802	Policy and Resources Portfolio	3,555	(2,413)	1,142
8,814	(2,487)	6,327	Health and Public Protection Portfolio	8,889	(2,307)	6,582
59,501	(45,867)	13,634	Streetscene Portfolio	54,765	(40,993)	13,772
			Cost of Services			
			Other Operating Expenditure			
		(1,434)				(543)
		196	(Gain)/loss on disposal of assets			196
			Financing and Investment Income and Expenditure			
		1,447				1,489
		(206)	Interest payable			(415)
		-	Interest receivable			225
			Changes in impairment loss allowance			
		(29)	Net (gain)/losses on financial assets at fair value through profit and loss			1,334
		1,540	Pension net interest cost	17		1,377
			Changes in fair value of investment properties	19		6,216
		(3,394)	Investment properties rental and expenses	19		(4,018)
			Taxation and Non-Specific Grant Income			
		(6,646)	Council tax income			(6,908)
		(2,665)	Non-domestic rates income			(3,228)
			Grants and contributions not distributable to services	11		(3,434)
		(3,009)				
		1,780	(Surplus)/Deficit on Provision of Services			6,063
		4,995	(Surplus)/deficit on revaluation of property, plant and equipment assets			(10,249)
		(5,946)	Pension liability re-measurements	17		549
		7	Other			-
		(944)	Other Comprehensive Income and Expenditure			(9,700)
		836	Total Comprehensive Income and Expenditure			(3,637)

Balance Sheet

The Balance Sheet shows the values of assets and liabilities held by the Council. The net assets are matched by the reserves. The reserves are presented within two categories, usable and unusable reserves. Usable reserves may be used to provide services subject to statutory limitations on their use and the need to maintain prudent level of reserves for financial stability. Unusable reserves cannot be used to fund services.

31 March 2019		31 March 2020
£'000	Note	£'000
	Property, Plant and Equipment	
121,645	- Council dwellings	124,378
84,732	- Other land and buildings	92,074
3,606	- Vehicles, plant and equipment	3,688
1,169	- Infrastructure	1,159
340	- Community assets	337
366	- Assets under construction	2,244
56,662	Investment properties	64,265
181	Heritage assets	172
19	Intangible assets	91
1,873	Long term investments	10,539
117	Long term debtors	101
270,710	Total long term assets	299,048
9,043	Short term investments	88
262	Assets held for sale	-
111	Inventories	110
7,851	Short term debtors	5,195
286	Payments in advance	478
2,106	Cash and cash equivalents	5,297
19,659	Current assets	11,168
(462)	Bank overdraft	-
(5,511)	Short term borrowing	(17,659)
(12,423)	Short term creditors	(11,405)
(97)	Depositors	(99)
(2,711)	Provisions	(2,973)
(21,204)	Current liabilities	(32,136)
(4,061)	Receipts in advance - capital grants	(4,728)
(1,772)	Receipts in advance - revenue grants	(2,226)
(40,000)	Long term borrowing	(40,000)
(3,390)	Long term creditors	(4,421)
(59,224)	Pension scheme liability	(62,349)
(108,447)	Long term liabilities	(113,724)
160,718	Net assets	164,356
41,734	Usable reserves	45,148
118,984	Unusable reserves	119,208
160,718	Total Reserves	164,356

Certification by the Chief Financial Officer

I certify that the Statement of Accounts presents a true and fair view of the financial position as at 31 March 2020 and its income and expenditure for the year then ended.

Andrew Wannell CPFA, Deputy Chief Executive Officer, 23rd November 2020

Movement in Reserves Statement

The Movement in Reserves Statement shows the movement in year on reserve balances held by the Council analysed into usable reserves, which may be used to fund expenditure or reduce local taxation, and 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 practices and the statutory adjustments required to return to the amounts chargeable to council tax or rents for the year.

	General Fund Balance £'000	Ear-marked Reserves £'000	Housing Revenue Account £'000	Major Repairs Reserve £'000	Capital Receipts Reserve £'000	Capital Grants Unapplied £'000	Total Usable Reserves £'000	Unusable Reserves £'000	Total Reserves £'000
Balance at 31 March 2019	8,853	16,567	1,301	1,838	7,507	5,668	41,734	118,984	160,718
Movement in reserves in year									
Total Comprehensive Income and Expenditure	(11,478)	-	5,416	-	-	-	(6,062)	9,700	3,638
Adjustments between accounting basis and funding basis under regulations	12,770	-	(5,487)	479	1,228	486	9,476	(9,476)	-
Transfers to/(from) earmarked reserves	(1,924)	2,367	(432)	-	-	(11)	-	-	-
Increase/(decrease) in year	(632)	2,367	(503)	479	1,228	475	3,414	224	3,638
Balance at 31 March 2020	8,221	18,934	798	2,317	8,735	6,143	45,148	119,208	164,356

	General Fund Balance £'000	Ear-marked Reserves £'000	Housing Revenue Account £'000	Major Repairs Reserve £'000	Capital Receipts Reserve £'000	Capital Grants Unapplied £'000	Total Usable Reserves £'000	Unusable Reserves £'000	Total Reserves £'000
Balance at 31 March 2018	8,664	13,581	1,824	984	4,619	4,252	33,924	127,630	161,554
Movement in reserves in year									
Total Comprehensive Income and Expenditure	(8,804)	-	7,018	-	-	-	(1,786)	950	(836)
Adjustments between accounting basis and funding basis under regulations	10,939	-	(6,512)	854	2,888	1,427	9,596	(9,596)	-
Transfers to/(from) earmarked reserves	(1,946)	2,986	(1,029)	-	-	(11)	-	-	-
Increase/(decrease) in year	189	2,986	(523)	854	2,888	1,416	7,810	(8,646)	(836)
Balance at 31 March 2019	8,853	16,567	1,301	1,838	7,507	5,668	41,734	118,984	160,718

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 or financing activities. The amount of net cash flows arising from operating activities is a key indicator of the extent to which the operations of the Council are funded by way of taxation and grant income or from the recipients of services provided by the Council. Investing activities represent the extent to which cash outflows have been made for resources which are intended to contribute to the Council's future service delivery. Cash flows arising from financing activities are useful in predicting claims on future cash flows by providers of capital (i.e. borrowing by the Council).

2018/19 £'000		Note	2019/20 £'000
(1,780)	Net surplus/(deficit) on the provision of services		(6,063)
14,699	Adjustments to surplus/(deficit) on the provision of services for non-cash movements	32	21,165
(4,926)	Adjustments for items included in the net surplus/(deficit) on the provision of services that are investing and financing activities	33	(3,555)
7,993	Net Cash Flows from Operating Activities		11,547
	Investing Activities		
(5,734)	Purchase of property, plant and equipment, investment property and intangible assets		(21,695)
(2,000)	Purchase of short and long term investments		(1,000)
3,720	Proceeds from property, plant and equipment, investment property and intangible assets		1,918
824	Other receipts from investing activities		2,319
(3,190)	Net Cash Flows from Investing Activities		(18,458)
	Financing Activities		
7,493	Cash receipts of short and long term borrowing		15,118
677	Other receipts from financing activities		(1,554)
(14,000)	Repayments of short and long term borrowing		(3,000)
(5,830)	Net Cash Flows from Financing Activities		10,564
(1,027)	Net increase/(decrease) in cash and cash equivalents		3,653
2,671	Cash and cash equivalents at the beginning of the reporting period		1,644
1,644	Cash and cash equivalents at the end of the reporting period		5,297



NOTES TO THE ACCOUNTS

Note 1 Going Concern

The CIPFA Code of Practice confirms that local authority accounts must be prepared on a going concern basis. The Covid-19 restrictions have created significant issues for many businesses and residents and as a result from 1 April 2020, Council income was affected detrimentally as payers sought to defer payments or were unable to pay at all.

The Covid-19 pandemic impacted at the very end of the year and therefore the full impact of this is not reflected in this Statement of Accounts. However, the Council is expecting significant challenges in the year ahead as it deals with the on-going crisis.

We have carried out an assessment of the impact of Covid-19 on our future finances and we are satisfied that there is no material uncertainty relating to going concern. Through our assessment we have identified that we expect in 2020/21 reductions in revenue relating to:

- Car Parking – there has been a 95% reduction in income in the first 3 months of the year and we have assumed a 50% reduction for the whole of the year, a reduction in income of £960,000.
- Trade Waste – assumed a reduction of 35% for the first 6 months of the year, a reduction of £81,000.
- Commercial Income – a 10% fall relating to lost rent on commercial investments of £476,900 and lost revenue from the Council’s treasury investments of £136,000 for the financial year.
- Business Rates – we have assumed a loss of £2 million for the year.

The Council has incurred £260,000 of one-off additional expenditure, as remote working arrangements were mobilised, and social distancing/control measures were put in place and enhanced cleaning regimes.

An additional bad debt provision of £950,000 covering a 3-year period from 2020/21 will provide some cover for reduced rental income from commercial properties and loss of business rates and council tax payments.

At the August 2020 Executive, a package of measures was approved to support the reopening of the two leisure centres in the Borough. This could amount to £1.2 million in 2020/21 and 2021/22. This is a reasonable worst-case position, but it is hoped that the required support will be below these sums.

The Government committed to support local authorities financially, recognising the key role they play in responding to the crisis and the impact that it has had on local service delivery. To date, the Council has received £1.3 million of Covid-19 support grants and expects to receive an additional £1.2 million in specific grants and the reimbursement of lost income, bringing the total Government support to £2.5 million.

An Emergency Revised 2020/21 Budget and Financial Recovery Plan was presented to the September 2020 Executive. The financial impact for 2020/21 is estimated to be £3.6 million. With Government funding support, the impact reduces to £1.14 million and will need to be met from the General Fund reserve.

The Council’s revised 5-year financial forecast for the Medium-Term Finance Strategy (MTFS) was presented to the October 2020 Executive taking into account the future impacts of the pandemic and other operational changes. With no indication that further Government funding will be available beyond 2020/21, the Council will either use reserves to stabilise the budget next year or look at alternative measures through further cost savings or revenue generation.

The effects of this going forward over the Strategy period is shown in the table below along with the impact on the General Fund reserve balance:

£'000	2020/21	2021/22	2022/23	2023/24	2024/25
Approved MTFS Deficit Position	0	489	512	440	n/a
Revised MTFS Forecast Deficit Position	1,145	2,282	706	594	452
General Fund Reserve Balance	7,076	4,794	4,088	3,494	3,042

The estimated balance of £3 million in 2024/25 will still be above our minimum level of General Fund balances as set by our Chief Financial Officer of £2.5 million.

There has been a less significant impact of Covid-19 on the Housing Revenue Account which is now expected to breakeven against an original budgeted surplus of £166,000 for 2020/21.

As the economy has changed significantly since the Covid-19 pandemic, capital investment plans have been revisited to determine if the original business cases remain sound. Budget phasing has also been reviewed and the updated programme for 2021/22 is £18.6 million compared to the original programme of £32.7 million.

The Council has undertaken cash flow modelling through to March 2022 which demonstrates the Council's ability to work within its authorised borrowing limit of £122 million in 2020/21 and £151 million in 2021/22. Based on its cash flow forecasting and the resultant liquidity position, the Council expects to have short-term borrowings of approximately £19 million at 31 March 2021, an increase of £4m on last year with no further planned borrowing. The Council's short-term borrowing continues to be for financing capital expenditure and is not expecting to borrow specifically for Covid-19. The Council will actively manage the cash position through daily treasury management controls and has access to short-term borrowing from other local authorities and the Public Loans Work Board to meet its liquidity needs.

As we transition into Recovery, a robust and comprehensive approach to predicting the longer-term financial impact has been established. This will ensure that measures can be taken, where necessary, to protect the Council's financial standing and ensure its position as a going concern is not compromised.

Note 2 Events after the Balance Sheet Date

The Statement of Accounts was authorised for issue by the Deputy Chief Executive Officer (Section 151 Officer) on 23 November 2020. Events taking place after this date are not reflected in the financial statements or notes. Where events taking place before this date provided information about conditions existing at 31 March 2020, the figures in the financial statements and notes have been adjusted in all material respects to reflect the impact of this information.

Note 3 Expenditure and Funding Analysis

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

2018/19			2019/20		
Net Expenditure Chargeable to the General Fund and HRA Balances £'000	Adjustments between the Funding and Accounting Basis £'000	Net Expenditure in the Comprehensive Income and Expenditure Statement £'000	Net Expenditure Chargeable to the General Fund and HRA Balances £'000	Adjustments between the Funding and Accounting Basis £'000	Net Expenditure in the Comprehensive Income and Expenditure Statement £'000
469	17	486	404	25	429
890	83	973	832	121	953
3	1,037	1,040	1,257	211	1,468
(736)	(7,272)	(8,008)	(3)	(5,912)	(5,915)
603	1,391	1,994	1,036	1,200	2,236
(719)	184	(535)	1,684	197	1,881
(1,065)	9,620	8,555	(1,167)	6,163	4,996
2,081	721	2,802	462	680	1,142
5,156	1,171	6,327	5,140	1,442	6,582
6,682	6,952	13,634	9,645	4,127	13,772
			Cost of Services		
(9,564)	(2,304)	(11,868)	(10,677)	2,968	(7,709)
(2,882)	(4,648)	1,766	(1,032)	7,095	6,063
(24,069)			Opening General Fund and HRA Balance at 1 April		(26,722)
333			Less Surplus/(Deficit) on General Fund and HRA Balance in Year		1,135
(2,986)			Less Transfers (to)/from Earmarked Reserves		(2,365)
(26,722)			Closing General Fund and HRA Balance at 31 March		(27,952)

Note 4 Note to the Expenditure and Funding Analysis

This note provides a reconciliation of the main adjustments to the net expenditure chargeable to the General Fund and the HRA balances to arrive at the amounts in the Comprehensive Income and Expenditure Statement.

2019/20				
Adjustments from General Fund and HRA to arrive at the Comprehensive Income and Expenditure Statement amounts	Adjustments for Capital Purposes (1) £'000	Net Changes for the Pension Adjustments (2) £'000	Other Differences (3) £'000	Total Adjustments £'000
Licensing and Regulatory Affairs Committee	-	25	-	25
Planning Committee	-	121	-	121
Housing Portfolio	27	184	-	211
Housing Revenue Account	(4,435)	528	(2,005)	(5,912)
Leisure and Community Portfolio	1,165	75	(40)	1,202
Planning and Development Portfolio	88	109	-	197
Policy and Resources Portfolio	8,221	314	(2,372)	6,163
Health and Public Protection Portfolio	584	96	-	680
Streetscene Portfolio	1,057	385	-	1,442
Net Cost of Services	6,707	1,837	(4,417)	4,127
Other income and expenditure from the Expenditure and Funding Analysis	(1,384)	1,377	2,976	2,969
Difference between General Fund and HRA surplus or deficit and Comprehensive Income and Expenditure Statement Surplus or Deficit on the Provision of Services	5,323	3,214	(1,441)	7,096

2018/19				
Adjustments from General Fund and HRA to arrive at the Comprehensive Income and Expenditure Statement amounts	Adjustments for Capital Purposes (1) £'000	Net Changes for the Pension Adjustments (2) £'000	Other Differences (3) £'000	Total Adjustments £'000
Licensing and Regulatory Affairs Committee	-	17	-	17
Planning Committee	-	83	-	83
Housing Portfolio	911	126	-	1,037
Housing Revenue Account	(5,689)	(357)	(1,226)	(7,272)
Leisure and Community Portfolio	1,426	67	(102)	1,391
Planning and Development Portfolio	84	100	-	184
Policy and Resources Portfolio	7,389	2,075	156	9,620
Health and Public Protection Portfolio	662	59	-	721
Streetscene Portfolio	1,165	266	(260)	1,171
Net Cost of Services	5,948	2,436	(1,432)	6,952
Other income and expenditure from the Expenditure and Funding Analysis	(1,238)	1,540	(2,592)	(2,290)
Difference between General Fund and HRA surplus or deficit and Comprehensive Income and Expenditure Statement Surplus or Deficit on the Provision of Services	4,710	3,976	(4,024)	4,662

Notes

1) Adjustments for Capital Purposes:

Net Cost of Services - Adjusts for depreciation, impairment charges and revaluation gains and losses in the service lines along with adjustments for non-capitalised expenditure and associated contributions from the Council's capital programme.

Other Income and Expenditure from the Expenditure and Funding Analysis

- Capital disposals with a transfer of income on disposal of assets and the amounts written off.
- Housing capital receipts which have been pooled to Central Government.
- Statutory charges for capital financing i.e. minimum revenue provision and other revenue contributions deducted from other income and expenditure as these are not chargeable under generally accepted accounting practices.
- Capital grants adjusted for income not chargeable under generally accepted accounting practise. Revenue and capital grants adjusted from those received in the year to those received without conditions or for which conditions were satisfied throughout the year.

2) Net Changes for the Pension Adjustments:

The removal of pension contributions and the addition of IAS 19 Employee Benefits pension related expenditure and income are reflected as follows:

Net Cost of Services - the removal of the employer pension contributions made by the Council as determined by statute and their replacement with current service costs and past service costs.

Other Income and Expenditure from the Expenditure and Funding Analysis - the net interest on the defined benefit liability is charge to the Comprehensive Income and Expenditure Statement.

3) Other Differences:

For reporting to management, the Council includes rental income from investment properties in the Policy and Resources Portfolio. However, this is reported in the Comprehensive Income and Expenditure Statement below the net cost of service line.

Note 5 Expenditure and Income Analysed by Nature

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

Expenditure/Income	2019/20 £'000	2018/19 £'000
Expenditure		
Employee benefits expenses	16,923	15,630
Other services expenses	45,266	50,833
Support service recharges	(749)	(879)
Interest payments	1,819	1,795
Depreciation, amortisation and impairment	948	(2,116)
Gain/loss on financial assets	1,334	(29)
Payments to housing receipts pool	196	196
Gain/loss on the disposal of assets	13	(1,434)
Total Expenditure	65,750	63,996
Income		
Fees, charges and other service income	(28,242)	(28,626)
Interest and investment income	(721)	(555)
Income from council tax and non-domestic rates	(10,136)	(9,311)
Government grants and contributions	(20,588)	(23,724)
Total Income	(59,687)	(62,216)
(Surplus)/Deficit on Provision of Services	6,063	1,780

Note 6 Segmental Income

Revenues received from external customers on a segmental basis is analysed below.

Services	2019/20 £'000	2018/19 £'000
Licensing and Regulatory Affairs Committee	504	246
Planning Committee	573	612
Housing Portfolio	871	868
Housing Revenue Account	12,268	12,333
Leisure and Community Portfolio	1,456	1,660
Planning and Development Portfolio	63	2,101
Policy and Resources Portfolio	3,440	4,222
Health and Public Protection Portfolio	2,359	926
Streetscene Portfolio	2,307	2,487
Total Income Analysed on a Segmental Basis	23,841	25,455

Note 7 New Accounting Standards yet to be adopted

At the Balance Sheet date, the following new standards and amendments to existing standards have been published but not yet adopted by the Code of Practice of Local Authority Accounting in the United Kingdom:

- IFRS 16 Leases will require local authorities that are lessees to recognise most leases on their Balance Sheets as right-of-use assets with corresponding lease liabilities (there is recognition for low-value and short-term leases). CIPFA/LASAAC have deferred implementation of IFRS16 for local government to 1 April 2021.
- IAS 19 Employee Benefits will require the remeasurement of net pension asset/liability following plan amendments, curtailments or settlements to be used to determine current service cost and net interest for the remainder of the year after the change to the plan. The updating of these assumptions only applies to changes from 1 April 2020 and, since this could result in positive, negative or no movement in the net pension liability, no prediction can be made of the possible accounting impact.
- Amendments to IAS28 Investments in Associates and Joint Ventures. These amendments are minor and not expected to have a material impact on the Statement of Accounts.

Note 8 Critical Judgements in Applying Accounting Policies

In applying the accounting policies set out in note 34, the Council has had to make certain judgements about complex transactions or those involving uncertainty about future events. The critical judgements made in the Statement of Accounts are:

Asset Reclassifications - The Council has made judgements on whether assets are classified as Investment Property, Heritage Asset or Property, Plant and Equipment. These judgements are based on the main reason that the Council is holding the asset. If the asset is used in the delivery of services or is occupied by third parties who are subsidised by the Council they are deemed to be Property, Plant and Equipment assets. If the asset has historical, artistic, scientific, technological, geophysical or environmental qualities and are held and maintained principally for their contribution to knowledge and culture it is deemed to be a Heritage Asset. If there is no subsidy and/or full market rent is being charged this would indicate that the asset is an Investment Property. The classification determines the valuation method to be used.

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

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

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 it is not yet necessary to consider the impairment of any assets for this reason, which would otherwise be necessary if facilities were required to close.

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 judgments are based on historical experience of debtor defaults and what the Council believes to be a prudent but realistic level.

Group Accounts - The Council has made a judgement not to produce Group Accounts. The Portchester Crematorium Joint Committee (PCJC) is classified as an Associate of the Council and under the Code the Council would recognise in its group financial statements its share of PCJC's net assets. Group Accounts have not been produced as the differences between the Council's group and single entity accounts would be very minor.

Note 9 Assumptions made about the future and other sources of estimation uncertainty

The Statement of Accounts contains estimated figures that are based on assumptions made by the Council about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be different from the assumptions and estimates.

The items in the Council's Balance Sheet at 31 March 2020 for which there is a significant risk of material adjustment in the forthcoming financial year are explained in the table below.

Item	Uncertainties	Effect if actual results differ from assumptions
Property, Plant and Equipment	<p>Assets are depreciated over useful lives that are dependent on assumptions about the service being delivered by the asset and the level of repairs and maintenance that will be incurred in relation to individual assets.</p> <p>The outbreak of Covid-19 has impacted global financial markets and as at the valuation date, less weight can be attached to previous market evidence to inform opinions of value. There is an unprecedented set of circumstances on which to base a judgement.</p> <p>Valuations are therefore reported based on 'material valuation uncertainty' as per the RICS Red Book Global. Consequently, less certainty and a higher degree of caution should be attached to the valuation. At the current time, it is not possible to accurately predict the longevity and severity of the impact of Covid-19 on the economy. Therefore, values have been based on the situation immediately prior to Covid-19, on the assumption that values will be confirmed when the real estate market becomes more fluid and empirical evidence becomes available. When income was known to be lost as at the balance sheet date, rather than deferred, then asset values have been reviewed and adjusted accordingly.</p>	<p>If the useful life of assets is reduced, depreciation increases resulting in a fall in the carrying value of assets. It is estimated that the annual depreciation charge for all assets would increase by £337,000 (2018/19 £387,700) for every year that useful lives had to be reduced.</p> <p>A reduction in the estimated valuations would result in reductions to the Revaluation Reserve and/or a loss recorded as appropriate in the Comprehensive Income and Expenditure Statement. If the value of the Council's land and buildings were to reduce by 10%, this would result in a charge to the Comprehensive Income and Expenditure Statement of approximately £3 million.</p> <p>An increase in estimated valuations would result in increases to the Revaluation Reserve and/or reversals of previous negative revaluations to the Comprehensive Income and Expenditure Statement and/or gains being recorded as appropriate in the Comprehensive Income and Expenditure Statement.</p>
Investment Property	<p>The Council's valuers use valuation techniques to determine the fair value of investment property. This involves developing estimates and assumptions consistent with how market participants would price the property. The valuers base their assumptions on observable data as far as possible, but this is not always available. In that case, the valuers use the best information available.</p> <p>At the current time, it is not possible to accurately predict the longevity and severity of the impact of Covid-19 on the economy. Therefore, it has been difficult to value property assets. Values have been based on the situation prior to Covid-19, on the assumption</p>	<p>Estimated fair values may differ from the actual prices that could be achieved in an arm's length transaction at the reporting date.</p> <p>If the value of the Council's investment properties were to reduce by 10% this would lead to a reduction in value of £6.4 million.</p>

	<p>that values will be restored when the real estate market becomes more fluid. However, where observable data has changed in the weeks following 31 March 2020 asset values have been reviewed and adjusted accordingly.</p>	
Council Dwellings	<p>Council dwellings are valued based on a beacon methodology. Each beacon property is considered individually using comparable properties to give evidence of value, utilising sales figures from the Land Registry, marketing details from local estate agents and regional and national indices.</p> <p>As at 31 March 2020 there was no evidence to suggest that Covid-19 has impacted upon local house prices in Fareham.</p>	<p>A reduction in the estimate value of Council dwellings would be a reduction in the revaluation reserve or a loss in the Comprehensive Income and Expenditure Statement. If the value of dwellings were to reduce by 10% this would lead to a reduction in value of £12.4 million.</p> <p>An increase in estimated valuations would result in increases to the Revaluation Reserve or gains being recorded as appropriate in the Comprehensive Income and Expenditure Statement.</p>
Pensions Liability	<p>Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the Council with expert advice about the assumptions to be applied.</p>	<p>The effects on the net pensions liability of changes in individual assumptions can be measured. Note 17 provides details of the impact of changes to the key assumptions.</p>
Financial Assets and Liabilities	<p>Estimation of fair values for financial assets and liabilities are based on current lending rates for equivalent loans and investments. These are provided by the Council's treasury advisors.</p>	<p>Fair value estimates do not apply to instruments which mature within the next 12 months. The values are disclosed as a note to the accounts and do not impact on the primary statements.</p>
Bad Debt Provision	<p>The Council has made allowances for doubtful debts of £2 million (2018/19 £1.58 million) based on what it believes to be a prudent but realistic level. The economic impact of the Covid-19 pandemic has made the estimation of debt impairment more difficult as there is more uncertainty about the economic viability of debtors and hence their ability to settle their debts.</p>	<p>If collection rates were to deteriorate or improve, a 5% change would require an adjustment to the allowance of £100,000 (2018/19 £79,000).</p>
Provisions	<p>The Council has made provisions for outstanding insurance claims, accumulated absences and land charges. The calculation for accumulated absences is based on an average of annual leave accrued over 4 years and the total of flexi leave at year end.</p>	<p>A 10% increase or decrease in provisions would require an adjustment of £26,600 (2018/19 £26,300).</p>
Business Rates Appeals Provision	<p>Under the business rates retention scheme, which came into effect on 1 April 2013, the Council has assumed some liability for refunding ratepayers who successfully appeal against the rateable value of their properties on the rating list. The estimate for the provision is based on software modelling and the latest list of outstanding rating list proposals provided by the Valuation Office Agency. The estimate looks at changes in comparable properties market trends and other valuation issues including the potential for certain proposals to be withdrawn.</p>	<p>The Council has made an allowance of £6.8 million (2018/19 £6.1 million) for these refunds within the Collection Fund. The Council's share of the provision is £2.7 million (2018/19 £2.4 million) which has reduced the amount of income that is distributed from the Collection Fund to the Council's General Fund. A 10% increase or decrease in the Council's share of the provision would require an adjustment of £270,800 (2018/19 £244,800).</p>

Note 10 Adjustments between Accounting Basis and Funding Basis under Regulation

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.

2019/20	General Fund Balance £'000	Ear-marked Reserves £'000	Housing Revenue Account £'000	Major Repairs Reserve £'000	Capital Receipts Reserve £'000	Capital Grants Unapplied £'000	Unusable Reserves £'000
Capital Adjustment Account							
Depreciation and impairment of non-current assets	3,059	-	2,635	-	-	-	(5,694)
Revaluation losses on property, plant and equipment	1,753	-	(2,424)	-	-	-	671
Revaluation of investment properties	6,214	-	-	-	-	-	(6,214)
Amortisation of intangible assets	-	-	5	-	-	-	(5)
Capital grants and contributions applied	(607)	-	(1,037)	-	-	(860)	2,504
Revenue Expenditure funded from capital under statute	454	-	-	-	-	-	(454)
Property written out on disposal	278	-	999	-	-	-	(1,277)
Statutory provision for the financing of capital investment	(759)	-	-	-	-	-	759
Capital expenditure charged to the General Fund and HRA Balances	(935)	-	(2,006)	-	-	-	2,941
Capital Grants Unapplied Account							
Capital grants and contributions unapplied	(1,346)	-	-	-	-	1,346	-
Capital Receipts Reserve							
Proceeds from disposal of property	(265)	-	(1,553)	-	1,818	-	-
Capital receipts applied	-	-	-	-	(525)	-	525
Housing and other capital receipts	(114)	-	-	-	131	-	(17)
Payments to the Government housing capital receipts pool	196	-	-	-	(196)	-	-
Major Repairs Reserve							
Depreciation re-credited to HRA	-	-	(2,634)	2,634	-	-	-
Major Repairs Reserve to finance new capital expenditure	-	-	-	(2,155)	-	-	2,155
Pension Reserve							
Net charges for retirement benefits	4,817	-	1,073	-	-	-	(5,890)
Employer's contribution to Pension Fund/ to pensioners	(2,769)	-	(545)	-	-	-	3,314
Collection Fund Adjustment Account							
Collection Fund adjustment	1,460	-	-	-	-	-	(1,460)
Accumulated Absences Account							
Accumulated Absences	-	-	-	-	-	-	-
Pooled Fund Adjustment Account							
Financial Assets	1,334	-	-	-	-	-	(1,334)
Total Adjustments	12,770	-	(5,487)	479	1,228	486	(9,476)

2018/19	General Fund Balance £'000	Ear- marked Reserves £'000	Housing Revenue Account £'000	Major Repairs Reserve £'000	Capital Receipts Reserve £'000	Capital Grants Unapplied £'000	Unusable Reserves £'000
Capital Adjustment Account							
Depreciation and impairment of non-current assets	3,269	-	2,543	-	-	-	(5,812)
Revaluation losses on property, plant and equipment	5,110	-	(4,456)	-	-	-	(654)
Revaluation of investment properties	2,361	-	(15)	-	-	-	(2,346)
Amortisation of intangible assets	2	-	5	-	-	-	(7)
Capital grants and contributions applied	(1,206)	-	-	-	-	(71)	1,277
Revenue Expenditure funded from capital under statute	855	-	-	-	-	-	(855)
Property written out on disposal	337	-	1,415	-	-	-	(1,752)
Statutory provision for the financing of capital investment	(698)	-	-	-	-	-	698
Capital expenditure charged to the General Fund and HRA Balances	(1,109)	-	(1,228)	-	-	-	2,337
Capital Grants Unapplied Account							
Capital grants and contributions unapplied	(1,498)	-	-	-	-	1,498	-
Capital Receipts Reserve							
Proceeds from disposal of property	(331)	-	(2,854)	-	3,186	-	-
Capital receipts applied	-	-	-	-	(655)	-	655
Housing and other capital receipts	(518)	-	(18)	-	552	-	(16)
Payments to the Government housing capital receipts pool	195	-	-	-	(195)	-	-
Major Repairs Reserve							
Depreciation re-credited to HRA	-	-	(2,544)	2,544	-	-	-
Major Repairs Reserve to finance new capital expenditure	-	-	-	(1,690)	-	-	1,690
Pension Reserve							
Net charges for retirement benefits	5,886	-	1,234	-	-	-	(7,120)
Employer's contribution to Pension Fund/ to pensioners	(2,521)	-	(594)	-	-	-	3,115
Collection Fund Adjustment Account							
Collection Fund adjustment	814	-	-	-	-	-	(814)
Accumulated Absences Account							
Accumulated Absences	19	-	1	-	-	-	(20)
Pooled Fund Adjustment Account							
Financial Assets	(29)	-	-	-	-	-	29
Total Adjustments	10,938	-	(6,511)	854	2,888	1,427	(9,595)

Note 11 Grant Income

The Council credited the following grants and contributions over £50,000 to the Comprehensive Income and Expenditure Statement.

Service Specific Revenue Grants and Contributions (included in Cost of Services)	2019/20 £'000	2018/19 £'000
Department for Works and Pensions		
Rent Allowances Subsidy	9,919	11,864
Rent Rebates	5,818	6,442
Housing and Council Tax Benefit Administration	173	194
Discretionary Housing Payments	111	119
Ministry for Housing, Communities and Local Government		
Disabled Facilities Grant	454	683
Preventing Homelessness Grants	294	304
NNDR Collection Allowance	138	138
Council Tax Support Administration	68	73
Homes England		
Welborne Capacity Funding	86	300
Department for Environment, Food and Rural Affairs		
Air Quality Feasibility Study Grant	53	546
Environment Agency		
Coast Monitoring Grant	69	-
Other		
Portchester Crematorium	160	150
S106 Developer Contributions	49	54
Total	17,392	20,867
Credited to Taxation and Non-Specific Grant Income		
	2019/20 £'000	2018/19 £'000
Ministry for Housing, Communities and Local Government		
New Homes Bonus	821	962
New Burdens Grants	43	26
Covid-19 Support Grant	34	-
Homes England		
Daedalus Development	109	427
Affordable Homes Programme	1,037	-
Other		
Community Infrastructure Levy	1,346	1,498
Developer Contributions	44	96
Total	3,434	3,009

Note 12 Audit Fees Payable

The Council has incurred the following costs in relation to the audit of the Statement of Accounts provided by the external auditor Ernst & Young LLP and the certification of the housing benefit subsidy claim provided by KPMG LLP.

	2019/20 £'000	2018/19 £'000
External audit services	37	37
Certification of grant claims and returns	10	10
Total	47	47

Note 13 Members' Allowances

The Council paid the following amounts to Members of the Council during the year.

	2019/20 £'000	2018/19 £'000
Basic Allowances	220	216
Special Responsibility Allowances	162	159
Superannuation and National Insurance	18	18
Travelling and Subsistence Allowances	4	4
Conference Expenses	1	1
Internet Rental Allowance	1	1
Total	406	399

Details of individual allowances including travel and subsistence are published in full on the Council's website.

Note 14 Remuneration of Staff

The number of employees, including senior officers (see note 15), whose remuneration, excluding employer's pension contributions, was £50,000 or more in bands of £5,000 are set out in the table below.

Remuneration Band	2019/20 Number of Employees	2018/19 Number of Employees
£50,000 - £54,999	7	3
£55,000 - £59,999	4	-
£60,000 - £64,999	3	4
£65,000 - £69,999	1	3
£70,000 - £74,999	7	6
£75,000 - £79,999	1	2
£80,000 - £84,999	1	1
£85,000 - £89,999	1	-
£90,000 - £94,999	3	1
£95,000 - £99,999	-	2
£110,000 - £119,999	1	-
£135,000 - £139,999	-	1
£140,000 - £144,999	1	-

Note 15 Senior Officer Emoluments

Post Title	Salary inc fees and allowances £	Expense Allowances £	Total remuneration excl pension contributions £	Pension contributions £	Total remuneration incl pension contributions £
2019/20 (1)					
Chief Executive Officer (2)	139,950	263	140,213	21,359	161,572
Deputy Chief Executive Officer (2)	110,699	-	110,699	17,340	128,039
Director of Planning and Regulation	93,412	441	93,853	15,039	108,892
Director of Support Services	90,205	-	90,205	14,513	104,718
Director of Leisure and Community (2)	87,196	143	87,339	13,556	100,895
	521,462	847	522,309	81,807	604,116
2018/19					
Chief Executive Officer (2)	138,266	527	138,793	19,640	158,433
Director of Planning and Regulation	91,580	430	92,010	13,829	105,839
Director of Finance and Resources	98,469	725	99,194	14,850	114,044
Managing Director of Fareham Housing	98,345	405	98,750	14,850	113,600
	426,660	2,087	428,747	63,169	491,916

Notes:

A Senior Officer is defined as an employee whose salary is more than £50,000 per year and undertakes a statutory role or has the power to direct or control the major activities of the Council. Senior Officers in this note relate to the Chief Executive Officer and his direct reports. Roles and responsibilities can be found on the Council's website.

- (1) There was a restructure of the management team that took effect from 1 April 2019.
- (2) Includes pay in respect of the Returning and Deputy Officer role in elections.

Note 16 Termination Benefits

The Council terminated the contracts of a number of employees in 2019/20, incurring liabilities of £635,693 (£283,075 in 2018/19). The number of exit packages with total cost per band and total cost of compulsory and other redundancies are set out in the table below.

	Number of compulsory redundancies		Number of other departures		Total number of exit packages		Total cost of exit packages	
	2019/20	2018/19	2019/20	2018/19	2019/20	2018/19	2019/20	2018/19
£0 - £20,000	22	2	11	7	33	9	£120,462	£51,617
£20,001 - £40,000	5	3	1	1	6	4	£184,139	£131,484
£40,001 - £60,000	1	1	1	1	2	2	£99,087	£99,974
£60,001 - £80,000	-	-	-	-	-	-	-	-
£80,001 - £100,000	1	-	-	-	1	-	£84,305	-
£140,001 - £160,000	1	-	-	-	1	-	£147,700	-
Total	30	6	13	9	43	15	£635,693	£283,075

Note 17 Pensions

Participation in Pension Schemes

As part of the terms and conditions of employment of its officers and other employees, 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 disclosures below relate to the following schemes:

- The Hampshire Pension Fund (Fund) which is part of the Local Government Pension Scheme (LGPS). The LGPS is a funded defined benefit plan with benefits earned up to 31 March 2014 being linked to final salary. Benefits after 31 March 2014 are based on a Career Average Revalued Earnings (CARE) scheme. Details of the benefits to be paid for the period covered by this disclosure are set out in the LGPS (Benefits, Membership and Contributions) Regulations 2007. The funded nature of the LGPS requires the Employer and its employees to pay contributions into the Fund, calculated at a level intended to balance the pension liabilities with investment assets. Information on the framework for calculating contributions to be paid is set out in the LGPS Regulations 2013 and the Fund's Funding Strategy Statement. The contributions to be paid until the date the next actuarial valuation of the Fund is available are set out in the Rates and Adjustment Certificate. The Fund Administering Authority, Hampshire County Council is responsible for the governance of the Fund.
- Unfunded pension arrangements established by the Council. These are termination benefits made on a discretionary basis upon early retirement in respect of members of the LGPS. This is an unfunded defined benefit arrangement, under which liabilities are recognised when awards are made. However, there are no investment assets built up to meet these pension liabilities, and cash has to be generated to meet actual pension payments as they eventually fall due.

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

Contributions for the Accounting Period Ending 31 March 2021

The Employer's regular contributions to the Fund for the accounting period ending 31 March 2021 are estimated to be £2.31 million. Additional contributions may also become due in respect of any employer discretions to enhance members' benefits in the Fund over the next accounting period. For the unfunded benefits scheme, for the accounting period ending 31 March 2021, the Employer expects to pay £0.21 million directly to beneficiaries.

Transactions Relating to Post-Employment Benefits

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

	Funded Benefits		Unfunded Benefits	
	2019/20	2018/19	2019/20	2018/19
	£'000	£'000	£'000	£'000
Comprehensive Income and Expenditure Statement:				
Cost of Services				
- Current service cost	4,441	3,690	-	-
- Past service cost	72	1,890	-	-
Financing and Investment Income and Expenditure				
- Interest net defined benefit liability	1,313	1,470	64	70
(Surplus)/deficit on the provision of services	5,826	7,050	64	70
Other Charges to the Comprehensive Income and Expenditure Statement:				
Remeasurement of the net defined benefit liability comprising				
- Return on plan assets (in excess of)/below that recognised in net interest	5,923	(8,239)	-	-
Actuarial (gains)/losses due to:				
- Changes in financial assumptions	(4,324)	8,960	(21)	-
- Changes in demographic assumptions	(4,519)	(7,200)	(43)	-
- Liability experience	3,438	310	95	(45)
Total amount recognised in Other Comprehensive Income and Expenditure	518	(6,169)	31	(45)
Total Amount Recognised	6,344	881	95	25
Movement in Reserves Statement:				
Reversal of net charges made to the surplus/(deficit) in accordance with the Code	(5,826)	(7,050)	(64)	(70)
Actual amount charged against the General Fund				
Balance for pensions in year:				
Employers' contribution payable to scheme	(3,109)	(2,640)	-	-
Retirement benefits payable to pensioners	-	-	(205)	(206)

Pension Assets and Liabilities Recognised in the Balance Sheet

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

	Funded Benefits		Unfunded Benefits	
	2019/20	2018/19	2019/20	2018/19
	£'000	£'000	£'000	£'000
Fair value of assets	117,287	120,690	-	-
Present value of defined benefit obligation	176,972	177,140	2,664	2,774
Funded status	(59,685)	(56,450)	-	-
Liability recognised on the Balance Sheet	(59,685)	(56,450)	(2,664)	(2,774)

The split of the defined benefit obligation at the last valuation date between the various categories of members was as follows:

Active members	35%
Deferred Pensioners	18%
Pensioners	47%

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

	Funded Benefits		Unfunded Benefits	
	2019/20 £'000	2018/19 £'000	2019/20 £'000	2018/19 £'000
Opening balance at 1 April	120,690	110,941	-	-
Interest income	2,897	2,880	-	-
Remeasurement gains and (losses)				
- Return on plan assets, excluding amount included in net interest expense	(5,923)	8,239	-	-
Contributions by the employer	3,109	2,640	205	206
Contributions by participants	805	750	-	-
Benefits paid	(4,291)	(4,760)	(205)	(206)
Closing balance at 31 March	117,287	120,690	-	-

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

	Funded Benefits		Unfunded Benefits	
	2019/20 £'000	2018/19 £'000	2019/20 £'000	2018/19 £'000
Opening balance at 1 April	177,140	169,150	2,774	2,955
Current service cost	4,441	3,690	-	-
Interest expense	4,210	4,350	64	70
Contribution by participants	805	750	-	-
Remeasurement gains and (losses) on liabilities				
- Financial assumptions	(4,324)	8,960	-	-
- Demographic assumptions	(4,519)	(7,200)	-	-
- Experience	3,438	310	31	(45)
Benefits paid	(4,291)	(4,760)	(205)	(206)
Past service cost	72	1,890	-	-
Closing balance at 31 March	176,972	177,140	2,664	2,774

Local Government Pension Scheme Assets

The approximate split of assets for the Fund as a whole is shown in the table below. The assets allocated to the Employer in the Fund are notional and the assets are assumed to be invested in line with the investments of the Fund set out below for the purposes of calculating the return to be applied to those notional assets. The Fund is largely liquid and as a consequence there will be no significant restriction on realising assets if the situation arises.

The Administering Authority, Hampshire County Council, does not invest in property or assets related to itself. It is possible, however, that assets may be invested in shares relating to some of the private sector employers participating in the Fund, if it forms part of their balanced investment strategy.

	Asset split at 31 March 2020			Asset split at 31 March 2019
	% Quoted	% Unquoted	% Total	% Total
Equities	44.1	8.6	52.7	60.4
Property	0.8	6.5	7.3	7.6
Government Bonds	21.8	-	21.8	22.7
Corporate Bonds	-	-	-	5.2
Cash	2.0	-	2.0	2.3
Other	14.1	2.1	16.2	1.8
Total	82.8	17.2	100.0	100.0

Basis for Estimating Assets and Liabilities

Liabilities have been assessed on an actuarial basis using the projected unit credit method, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels etc.

Both the Local Government Pension Scheme and discretionary benefits liabilities have been assessed by Aon Hewitt Limited, an independent firm of actuaries. Estimates for the Hampshire County Council Fund are based on the latest full valuation of the scheme as at 31 March 2019 for funded benefits and 31 March 2020 for unfunded benefits.

The principal assumptions used by the actuary in updating the latest valuation of the Fund for IAS19 purposes were:

	Funded Benefits 31 March		Unfunded Benefits 31 March	
	2020 % p.a	2019 % p.a	2020 % p.a	2019 % p.a
Mortality assumptions:				
Future lifetime from age 65 (aged 65 at accounting date)				
Men	23.0	23.3	23.0	23.3
Women	24.7	26.1	25.5	26.1
Future lifetime from age 65 (aged 45 at accounting date)				
Men	25.5	24.9	n/a	n/a
Women	27.2	27.8	n/a	n/a
Principal financial assumptions (% per annum)				
Discount rate	2.3	2.4	2.3	2.4
CPI inflation	2.0	2.2	2.0	2.2
Pension increases	2.0	2.2	2.0	2.2
Pension accounts revaluation rate	2.0	2.2	n/a	n/a
Salary increases	3.0	3.7	n/a	n/a

The estimation of the defined benefit obligations is sensitive to the actuarial assumptions set out in the table above. The approximate impact of changing the key assumptions on the present value of the funded defined benefit obligation as at 31 March 2020 and the projected service cost for the year ending 31 March 2021 is set out in the table below.

In each case, only the assumption mentioned is altered; all other assumptions remain the same. The sensitivity of unfunded benefits is not included on materiality grounds.

Discount rate assumption			
	+0.1% p.a.	Base Figure	-0.1% p.a.
Adjustment to discount rate			
Present value of total obligation (£M)	173.556	176.972	180.455
% change in present value of total obligation	-1.9%		2.0%
Projected service cost (£M)	4.177	4.319	4.465
Approximate % change in projected service cost	-3.3%		3.4%
Rate of general increase in salaries			
	+0.1% p.a.	Base Figure	-0.1% p.a.
Adjustment to salary increase rate			
Present value of total obligation (£M)	177.335	176.972	176.613
% change in present value of total obligation	0.2%		-0.2%
Projected service cost (£M)	4.319	4.319	4.319
Approximate % change in projected service cost	0.0%		0.0%

Rate of increase to pensions in payment and deferred pension assumptions

	+0.1% p.a.	Base Figure	-0.1% p.a.
Adjustment to pension rate increase			
Present value of total obligation (£M)	180.105	176.972	173.903
% change in present value of total obligation	1.8%		-1.7%
Projected service cost (£M)	4.465	4.319	4.177
Approximate % change in projected service cost	3.4%		-3.3%

Post retirement mortality assumption

	-1 year	Base Figure	+1 year
Adjustment to mortality age rating assumption			
Present value of total obligation (£M)	182.550	176.972	171.439
% change in present value of total obligation	3.2%		-3.1%
Projected service cost (£M)	4.481	4.319	4.158
Approximate % change in projected service cost	3.8%		-3.7%

Note 18 Property, Plant and Equipment

Valuation information

The Council's property portfolio has been revalued in accordance with the statement of accounting policies and to reflect the methodologies and bases for estimation set out in the professional standards of the Royal Institute of Chartered Surveyors.

The portfolio is revalued on a rolling basis by the Council's own valuers K. Boothroyd MRICS and M. Newman MRICS.

The various sites at Daedalus were revalued by M. Newman MRICS to 31 March 2020.

The table below shows the dates of the revaluation of non-current assets. Vehicles, plant, equipment and non-operational assets are valued at historic cost:

	Council Dwellings £'000	Other Land and Buildings £'000	Vehicles, Plant and Equipment £'000	Total £'000
Historic	-	2,678	11,791	14,469
2015/16	-	1,453	-	1,453
2016/17	-	224	-	224
2017/18	-	1,658	-	1,658
2018/19	-	1,500	-	1,500
2019/20	126,866	89,506	-	216,372
Total	126,866	95,652	11,791	234,309

The figure for additions includes capital expenditure which substantially lengthens the life of the assets or substantially increases the market value.

Council dwellings were re-valued as at 31 March 2020. The valuation takes into account the use for social housing and assumes social housing tenanted value is 33% of vacant possession value.

Depreciation

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

Council Dwellings	20 to 50 years
Other Land and Buildings	3 to 60 years
Vehicles and Plant	2 to 10 years
Furniture and Equipment	3 to 20 years
Infrastructure	5 to 50 years

The Council calculates depreciation for dwellings by basing the calculation on the Existing Use Value for Social Housing and writing down the value of the buildings on a straight-line basis over the useful life of the major components of between 20 and 50 years.

Capital Commitments

At 31 March 2020, the Council had entered into a number of contracts for the construction, purchase or enhancement of Property, Plant and Equipment in 2020/21 and future years, budgeted to cost £2.3 million. Similar commitments at 31 March 2019 were £16.8 million. The major commitment is a Fareham Housing development.

Movement in Non-Current Assets 2019/20

	Council Dwellings £'000	Other Land and Buildings £'000	Vehicles, Plant and Equipment £000	Infrastructure Assets £'000	Community Assets £'000	Assets Under Construction £'000	Total £'000
Cost or Valuation							
At 1 April 2019	124,055	87,966	10,953	2,135	377	366	225,852
Additions	3,838	1,175	902	8	-	1,878	7,801
Revaluation increases/(decreases) to RR	-	8,272	-	-	-	-	8,272
Revaluation increases/(decreases) to SDPS	14	(1,753)	-	-	-	-	(1,739)
Derecognition – Disposals	(1,021)	(8)	(64)	-	-	-	(1,093)
Reclassified to/from Held for Sale	-	-	-	-	-	-	-
Other movements	-	-	-	-	-	-	-
At 31 March 2020	126,886	95,652	11,791	2,143	377	2,244	239,093
Depreciation and impairment							
At 1 April 2019	2,410	3,234	7,347	966	37	-	13,994
Depreciation Charge	2,530	2,331	804	18	3	-	5,686
Depreciation written out to RR	-	(1,888)	-	-	-	-	(1,888)
Depreciation written out to SDPS	(2,410)	(99)	-	-	-	-	(2,509)
Derecognition – Disposals	(21)	-	(48)	-	-	-	(69)
At 31 March 2020	2,509	3,579	8,103	984	40	-	15,215
Net Book Value							
At 31 March 2020	124,377	92,073	3,688	1,159	337	2,244	223,878
At 31 March 2019	121,645	84,732	3,606	1,169	340	366	211,858

Movement in Non-Current Assets 2018/19

	Council Dwellings £'000	Other Land and Buildings £'000	Vehicles, Plant and Equipment £000	Infrastructure Assets £'000	Community Assets £'000	Assets Under Construction £'000	Total £'000
Cost or Valuation							
At 1 April 2018	120,239	95,376	10,666	2,106	377	3,944	232,708
Additions	3,261	1,052	1,082	29	-	310	5,734
Revaluation increases/(decreases) to RR	-	(6,568)	-	-	-	-	(6,568)
Revaluation increases/(decreases) to SDPS	1,997	(5,110)	-	-	-	-	(3,113)
Derecognition – Disposals	(1,442)	(410)	(795)	-	-	-	(2,647)
Reclassified to/from Held for Sale	-	(262)	-	-	-	-	(262)
Other movements	-	3,888	-	-	-	(3,888)	-
At 31 March 2019	124,055	87,966	10,953	2,135	377	366	225,852
Depreciation and impairment							
At 1 April 2018	2,459	2,461	7,225	938	34	-	13,117
Depreciation Charge	2,437	2,431	904	28	3	-	5,803
Depreciation written out to RR	-	(1,564)	-	-	-	-	(1,564)
Depreciation written out to SDPS	(2,459)	(94)	-	-	-	-	(2,553)
Derecognition – Disposals	(27)	-	(782)	-	-	-	(809)
At 31 March 2019	2,410	3,234	7,347	966	37	-	13,994
Net Book Value							
At 31 March 2019	121,645	84,732	3,606	1,169	340	366	211,858
At 31 March 2018	117,780	92,915	3,441	1,168	343	3,944	219,591

RR = Revaluation Reserve

SDPS = Surplus/Deficit on the Provision of Services

The figures for Other Land & Buildings, Vehicles Plant & Equipment and Assets Under Construction include assets owned by the Housing Revenue Account. Details for these can be found on Notes to the HRA note 2.

Note 19 Investment Properties

The following items of income and expenditure have been accounted for in the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The Council's Investment Property portfolio has been re-valued in accordance with the statement of accounting policies by K. Boothroyd MRICS.

	2019/20 £'000	2018/19 £'000
Rental, sales income and service charges	(4,750)	(4,127)
Direct operating expenses	732	733
Net (gain)/loss	(4,018)	(3,394)

Movement in Fair Value of Investment Properties

	Value at 31 March 2019 £'000	Acquisitions £'000	Change in Value £'000	Re- classifications £'000	Value at 31 March 2020 £'000
Commercial	10,011	8,798	(13)	-	18,796
Leisure	1,167	-	35	-	1,202
Office	3,759	-	27	-	3,786
Other	4,373	-	30	-	4,403
Retail	37,352	5,020	(6,295)	-	36,077
Total	56,662	13,818	(6,216)	-	64,264

	Value at 31 March 2018 £'000	Acquisitions £'000	Change in Value £'000	Re- classifications £'000	Value at 31 March 2019 £'000
Commercial	9,775	-	236	-	10,011
Leisure	1,138	35	(7)	-	1,167
Office	3,666	-	93	-	3,759
Other	4,652	-	(279)	-	4,373
Retail	39,741	-	(2,389)	-	37,352
Total	58,973	35	(2,346)	-	56,662

Fair Value Measurement of Investment Properties

	Quoted prices in active markets Level 1 £'000	Other significant observable inputs Level 2 £'000	Significant unobservable inputs Level 3 £'000	Fair Value at 31 March 2020 £'000
Commercial	17,215	1,511	70	18,796
Leisure	-	23	1,179	1,202
Office	2,200	1,586	-	3,786
Other	2,177	1,951	275	4,403
Retail	35,638	439	-	36,077
Total	57,230	5,511	1,964	64,264

Note 20 Leases

Council as Lessee – Finance Leases

The Council has some assets under finance leases which are carried as Property, Plant and Equipment and Investment Property in the Balance Sheet at the following net amounts:

	31 March 2020 £'000	31 March 2019 £'000
Property, Plant and Equipment	9,651	10,158
Investment Property	5,673	6,128
Total	15,324	16,286

All properties are subject to the Council making peppercorn minimum lease payments. There are no contingent rents payable. None of the properties are subject to finance lease liabilities as premiums were paid at the inception of the lease.

Council as Lessor – Operating Leases

The Council leases out property under operating leases for the following purposes:

- For the provision of leisure facilities
- To provide accommodation for local businesses
- For income generation and capital appreciation

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

	31 March 2020 £'000	31 March 2019 £'000
Not later than one year	5,260	4,528
Later than one year and not later than five years	14,659	12,635
Later than five years	45,807	45,229
Total	65,726	62,392

The minimum lease payments receivable does not include rents that are contingent rents on events taking place after the lease was entered into, such as adjustments following rent reviews. In 2019/20, contingent rents of £0.61 million were received by the Council (2018/19 £0.63 million).

Note 21 Short Term Debtors

	31 March 2020 £'000	31 March 2019 £'000
Central government bodies	190	1,315
Other local authorities	711	1,885
Community Infrastructure Levy	1,346	1,096
Other entities and individuals	1,937	2,249
Housing benefits overpaid	1,641	1,761
Council tenants arrears	668	580
Council Tax and NNDR arrears	709	542
Provision for doubtful debts	(2,008)	(1,577)
Total	5,195	7,851

Note 22 Short Term Creditors

	31 March 2020 £'000	31 March 2019 £'000
Central government bodies	3,951	5,204
Other local authorities	3,352	4,151
Receipts in advance	1,138	786
Other entities and individuals	2,964	2,282
Total	11,405	12,423

Note 23 Provisions

	Balance at 1 April £'000	Provision in year £'000	Applied in year £'000	Balance at 31 March £'000
Business rate appeals	2,448	388	(128)	2,708
Insurance	54	94	(91)	57
Employee related	209	209	(209)	209
Total 2019/20	2,711	691	(428)	2,974
Total 2018/19	1,874	1,128	(291)	2,711

The business rate appeals provision is for refunding ratepayers who successfully appeal against the rateable value of their properties. The insurance provision is set up to meet certain known liabilities in respect of risks e.g. fire, explosion, storm, flood, burst pipes, impact. The employee related provision is used for accumulated absences due.

Note 24 Receipts in Advance

The Council has received a number of 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. These mainly relate to developer contributions that have conditions in the form of time limits on them. The balances and movement on these are as follows:

	31 March 2020 £'000	31 March 2019 £'000
Balance at 1 April	5,833	6,678
Movements in year:		
Amounts received (with conditions)	2,897	813
Amounts recognised as income (conditions subsequently met):		
- Within Cost of Services	(132)	(1,134)
- Within Taxation and Non-Specific Grants	(1,644)	(524)
Balance at 31 March	6,954	5,833
Receipts in Advance (Capital Grants)		
Leisure developer contributions	1,855	1,861
Affordable housing developer contributions	442	442
Other developer contributions	540	440
Homes England	1,256	986
Other capital contributions	635	332
	4,728	4,061
Receipts in Advance (Revenue Grants)		
Air quality grants	454	254
Titchfield Country Park developer contribution	477	518
Welborne Garden Village contribution	552	488
National Grid IFA2 developer contribution	432	457
Environment Agency – Hook Lake Habitat Creation	256	-
Other revenue contributions	55	55
	2,226	1,772
Total Receipts in Advance	6,954	5,833

Note 25 Transfers to/from Earmarked Reserves

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

	31 March 2018 £'000	Transfers Out £'000	Transfers In £'000	31 March 2019 £'000	Transfers Out £'000	Transfers In £'000	31 March 2020 £'000
General Fund							
Major Repairs and Renewals	1,302	-	-	1,302	-	-	1,302
Other Earmarked Reserves	1,813	(303)	2,409	3,919	(142)	1,930	5,707
Earmarked Capital Reserves	4,044	(1,274)	1,125	3,895	(979)	1,125	4,041
	7,159	(1,577)	3,534	9,116	(1,121)	3,055	11,050
HRA							
Housing Repairs Account	1,500	-	-	1,500	-	-	1,500
Capital Development Fund	3,520	(129)	-	3,391	(714)	-	2,677
Debt Repayment Fund	1,140	-	1,140	2,280	-	1,140	3,420
Leaseholder Repairs	262	-	18	280	-	7	287
	6,422	(129)	1,158	7,451	(714)	1,147	7,884
Total	13,581	(1,706)	4,692	16,567	(1,835)	4,202	18,934

Note 26 Capital Expenditure and Capital Financing

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

The main items of capital expenditure on non-current assets during the year are shown below. Only a proportion of this expenditure led to an increase in the value of assets. Capital expenditure and financing for the year were as follows:

2018/19 £'000		2019/20 £'000
90,556	Opening Capital Finance Requirement	90,523
Capital Investment		
5,734	Property, Plant and Equipment	7,877
35	Investment Properties	13,818
855	Revenue Expenditure Funded from Capital under Statute	454
Sources of Finance		
(655)	Capital Receipts	(525)
(1,277)	Government Grants and Other Contributions	(2,503)
Sums set aside from revenue:		
(1,690)	HRA Major Repairs Reserve	(2,155)
(2,337)	Direct Revenue Contributions	(2,941)
(698)	Minimum Revenue Provision	(758)
90,523	Closing Capital Finance Requirement	103,790
Explanation of movements in year		
(33)	Increase/(decrease) in underlying need to borrow	13,267

Note 27 Unusable Reserves

	31 March	
	2020 £'000	2019 £'000
Revaluation Reserve	40,410	30,979
Capital Adjustment Account	144,222	147,511
Pensions Reserve	(62,349)	(59,224)
Collection Fund Adjustment Account	(1,405)	54
Accumulated Absences Account	(209)	(209)
Pooled Fund Adjustment Account	(1,461)	(127)
	119,208	118,984

a) Revaluation Reserve

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

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

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

2018/19 £'000		2019/20 £'000
36,842	Balance at 1 April	30,979
3,056	Upward revaluation of assets	12,706
(8,051)	Downward revaluation of assets and impairment losses not charged to Surplus/Deficit on the Provision of Services	(2,457)
(4,995)		10,249
(543)	Difference between current value depreciation and historical cost depreciation	(557)
(325)	Accumulated gains on assets disposed or reclassified to Investment Properties	(261)
(868)	Amount written off to the Capital Adjustment Account	(818)
30,979	Balance at 31 March	40,410

b) Capital Adjustment Account

The Capital Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for the consumption of non-current assets and for financing the acquisition, construction or enhancement of those assets under statutory provisions.

Note 10 provides details of the source of all the transactions posted to the Account, apart from those involving the Revaluation Reserve.

2018/19 £'000		2019/20 £'000
151,428	Balance at 1 April	147,511
	Reversal of items relating to capital expenditure in the Comprehensive Income and Expenditure Statement	
(5,812)	Charges for depreciation and impairment of non-current assets	(5,694)
(654)	Revaluation losses on property, plant and equipment	671
(7)	Amortisation of intangible assets	(5)
(855)	Revenue expenditure funded from capital under statute	(454)
(1,752)	Amounts of non-current assets written off on disposal or sale as part of gain/loss on disposal to the Comprehensive Income and Expenditure Statement	(1,277)
142,348		140,752
(16)	Amount credited to Capital Receipts Reserve relating to part repayment of principal on long term debtor	(17)
325	Cumulative (gains)/losses on assets sold or reclassified as Investment Properties	261
543	Adjustment amounts written out of the Revaluation Reserve	557
143,200	Net written out amount of the cost of non-current assets consumed in the year	141,553
	Capital financing applied in the year	
655	Use of the Capital Receipts Reserve to finance new capital expenditure	525
1,690	Use of the Major Repairs Reserve to finance new capital expenditure	2,155
1,277	Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	2,504
698	Statutory provision for the financing of capital investment charged against the General Fund and HRA balances	759
2,337	Capital expenditure charged against the General Fund and HRA balances	2,941
149,857		150,437
(2,346)	Movements in the market value of Investment Properties debited or credited to the Comprehensive Income and Expenditure Statement	(6,215)
147,511	Balance at 31 March	144,222

c) Pensions Reserve

The Pensions Reserve absorbs the timing differences arising from the different arrangements for accounting for post-employment benefits and for funding benefits in accordance with statutory provisions.

The Council accounts for post-employment benefits in the Comprehensive Income and Expenditure Statement as the benefits are earned by employees however, statutory arrangements require that benefits are financed as the Council makes contributions to pension fund.

The debit balance on the Pensions Reserve therefore shows a substantial shortfall in the benefits earned by past and current employees and the resources the Council has set aside to meet them. The statutory arrangements will ensure that funding will have been set aside by the time the benefits come to be paid.

2018/19 £'000		2019/20 £'000
(61,165)	Balance at 1 April	(59,224)
5,946	Actuarial gains or losses on pension assets and liabilities	(549)
(7,120)	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	(5,890)
3,115	Employers' pension contributions and direct payments to pensioners payable in the year	3,314
(59,224)	Balance at 31 March	(62,349)

d) Collection Fund Adjustment Account

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

2018/19 £'000		2019/20 £'000
869	Balance at 1 April	55
59	Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax calculated for the year in accordance with statutory requirements	139
(873)	Amount by which NDR income credited to the Comprehensive Income and Expenditure Statement is different from NDR calculated for the year in accordance with statutory requirements	(1,599)
55	Balance at 31 March	(1,405)

Note 28 Financial Instruments

The borrowings and investments disclosed in the Balance Sheet are made up of the following categories of financial instruments:

	Fair Value Level	Long Term		Short Term	
		31 March 2020 £'000	31 March 2019 £'000	31 March 2020 £'000	31 March 2019 £'000
- Borrowing	2	40,000	40,000	17,659	5,511
- Bank overdraft		-	-	-	462
Total Borrowing		40,000	40,000	17,659	5,973
Long Term Creditors		4,421	3,390	-	-
Trade Creditors		-	-	6,083	4,401
Total Financial Liabilities		44,421	43,390	23,742	10,374

All borrowing is on fixed terms and shown at amortised cost.

	Fair Value Level	Long Term		Short Term	
		31 March 2020 £'000	31 March 2019 £'000	31 March 2020 £'000	31 March 2019 £'000
- Investments at amortised cost		-	-	88	9,043
- Fair value through profit or loss:					
Property funds	2	2,709	1,873	-	-
Multi-asset funds	1	7,830	-	-	-
Total Investments		10,539	1,873	88	9,043
- Cash at amortised cost		-	-	994	4
- Fair value through profit or loss:					
Money market funds	1	-	-	4,303	2,102
Total Cash and Cash Equivalent		-	-	5,297	2,106
Long Term Debtors		101	117	-	-
Trade Debtors		-	-	3,631	4,070
Total Financial Assets		10,640	1,990	9,016	15,219

Debtors and creditors and other Balance Sheet items that arise under contract from the Council's powers and duties are classified as financial instruments and carried at amortised cost, although debtors and creditors arising from council tax, business rates, government grants etc. are excluded.

Financial Instruments - Fair Values

Financial instruments classified as fair value through profit or loss are carried in the Balance Sheet at fair value. These assets are shares in money market funds and other pooled funds and the fair value is taken from the market price.

Fair values are shown in the tables above, 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.

Financial instruments classified at amortised cost are carried in the Balance Sheet at amortised cost. Their fair values have been estimated by discounting the contractual cash flows over the whole life of the instrument at the appropriate rate for local authority loans.

The fair values of long term borrowing are:

	31 March 2020		31 March 2019	
	Balance Sheet £'000	Fair Value £'000	Balance Sheet £'000	Fair Value £'000
Borrowing	40,000	53,542	40,000	51,620

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

The fair value of short-term instruments, including trade payables and receivables, is assumed to approximate to the carrying amount given the low and stable interest rate environment. Movements in the fair value during the life of long term debtors and creditors are not recognised.

Nature and Extent of Risks Arising from Financial Instruments

Liquidity Risk

The Council manages its liquidity position through the setting and approval of prudential indicators and the treasury and investment strategy (approved by Full Council on 22 February 2019) and through cash flow management which seeks to ensure that cash is available when needed.

The Council has ready access to borrowing at favourable rates from the Public Works Loan Board (PWLB) and other local authorities and at higher rates from banks and building societies. There is no perceived risk that the Council will be unable to raise finance to meet its commitments.

The maturity analysis of financial instruments is as follows:

Time to Maturity	As at 31 March 2020		As at 31 March 2019	
	Liabilities £'000	Assets £'000	Liabilities £'000	Assets £'000
Less than 3 months	7,640	4,392	5,973	7,149
3 to 6 months	-	-	-	4,000
6 months to 1 year	10,019	-	-	-
1 to 5 years	-	10,539	-	1,873
Over 35 years	40,000	-	40,000	-
Total	57,659	14,931	45,973	13,022

All trade debtors and creditors are due to be received in less than one year.

Credit Risk

Credit risk arises from deposits with banks and financial institutions, as well as credit exposures to the Council's customers. This risk is minimised through the annual investment strategy, which requires that deposits are not made with financial institutions unless they meet identified minimum credit criteria. It also considers maximum amounts and time limits in respect of each financial institution.

The following analysis shows the gross credit exposure by credit rating of the Council's investments as at 31 March 2020.

Rating Category	31 March 2020 £'000	31 March 2019 £'000
AAA or equivalent	10,623	3,995
AA or equivalent	4,302	-
A or equivalent	6	6,020
Not rated	-	3,007
Total	14,931	13,022

The Council's financial liabilities and assets, other than investments, all relate to non-rated organisations.

The Council's maximum exposure to credit risk in relation to its £14.9 million (2018/19 £13 million) investments in financial institutions cannot be assessed generally as the risk of any institution failing to make interest payments or repay the principal sum will be specific to each individual institution. Recent experience has shown that it is rare for such entities to be unable to meet their commitments. A risk of irrecoverability applies to all of the Council's deposits, but there was no evidence as at the 31 March 2020 that this was likely to crystallise.

Although the fair value of trade debtors is taken to be the billed amount as they are receivable within 12 months, the Council does make significant provision for unpaid debts (£423,000 as at 31 March 2020, £197,000 as at 31 March 2019). Trade debtors include outstanding sundry debts and other trade debts. Loss allowances have been calculated by reference to the Council's historic experience of default, multiplied by 365% to adjust for current and forecast economic conditions due to the Covid-19 pandemic.

Sundry Debtors Age Analysis	Amount Outstanding as at 31 March 2020 £'000	Expected Credit Loss £'000
On time	836	10
Up to 1 month late	296	7
1-2 months late	114	9
2-3 months late	280	43
3-6 months late	105	29
6-12 months late	103	40
1-2 years late	101	87
2-3 years late	44	43
Over 3 years late	158	155
Total	2,037	423

Market Risk

The Council is exposed to risk in terms of its exposure to interest rate movements on some of its borrowings and investments. Investments classed as loans and receivables and loans borrowed are not carried at fair value, so changes in their fair value will have no impact on Comprehensive Income and Expenditure. 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 classed as available-for-sale will be reflected in Other Comprehensive Income and Expenditure

Price Risk

The Council's investment in long term pooled funds is subject to the risk of falling commercial property prices and share prices. This risk is limited by the Council's maximum exposure to property and multi-asset investments. As at 31 March 2020 the Council had £12 million invested in long term pooled funds. A 5% fall in share price would result in a £600,000 charge to Other Comprehensive Income and Expenditure. This would have no impact on the Surplus or Deficit on the Provision of Services until the investment was sold.

Note 29 Related Party Transactions

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

Central Government

Central Government has effective control over the general operations of the Council as it is responsible for providing the statutory framework within which the Council operates, provides a significant proportion of its funding in the form of grants and prescribes the terms of many of the transactions that the Council has with other parties (e.g. council tax bills, housing benefits). Grants received from government departments are shown in note 11.

Members

Members of the Council have direct control over the Council's financial and operating policies. During 2019/20, there were no material related party transactions between the Council and Council Members. Any declarations of interest are recorded in the Register of Member's Interests which is open to public inspection. The total of members' allowances paid in 2019/20 is shown in note 13.

Chief Officers

Chief Officers have the ability to influence the Council. During 2019/20, there were no material related party transactions between the Council and Chief Officers.

Portchester Crematorium Joint Committee

The Portchester Crematorium Joint Committee (PCJC) is a jointly controlled operation of the Council which manages the operations of Portchester Crematorium. The Joint Committee is represented equally by four constituent authorities, Fareham Borough Council, Gosport Borough Council, Havant Borough Council and Portsmouth City Council.

Fareham Borough Council's share of the net assets of PCJC is £2,458,943 (2018/19 £1,974,614). In 2019/20, PCJC paid a contribution of £160,000 to the Council (£150,000 in 2018/19). The PCJC has an investment policy of placing all surplus funds with the Council. At 31 March 2020, £2,627,969 was invested with the Council (£2,509,988 at 31 March 2019).

Building Control Partnership

The Building Control Partnership provides building control services to Fareham Borough Council, Gosport Borough Council and Portsmouth City Council. The Partnership between Fareham and Gosport has been in operation since 2003, with Portsmouth coming into the Partnership in 2015/16.

During 2019/20, the Partnership charged Gosport Borough Council £146,377 (2018/19 £113,594) and Portsmouth City Council £126,689 (2018/19 £100,844) for statutory building control services. The Partnership has a policy of dividing generated surpluses between the authorities based on fee generating work in each authority area. At 31 March 2020, the balance of retained surpluses for future investment in the service was £167,236 for Fareham Borough Council, £100,629 for Gosport Borough Council and £64,287 for Portsmouth City Council.

Fareham and Gosport Environmental Health Partnership

The Fareham and Gosport Environmental Health Partnership provides environmental health services to Fareham Borough Council and Gosport Borough Council. The Partnership came into operation in 2014/15. During 2019/20, the Partnership charged Gosport Borough Council £641,939 (2018/19 £616,629) for statutory environmental health services. The Partnership has a policy of sharing expenditure (excluding internal recharges) on a 50/50 basis. All income is retained by the relevant authority.

Note 30 Contingent Liabilities

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

Municipal Mutual Insurance – Scheme of Arrangement

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

An initial levy of 15% of previously paid claims, less the first £50,000 was collected by MMI from scheme members in February 2014. In April 2016, following a further review by the scheme administrator, the levy was increased by a further 10% to 25%. The current value of outstanding claims is £169,000 with a contingent liability of £127,000. Under the terms of the SoA, the Council also has to meet 25% of any new insurance claim settlements made by MMI. An annual review of the levy rate is required under the terms of the SoA and this could lead to the rate being further amended in future.

Note 31 Cash Flow Statement - Operating Activities (Interest)

Operating activities within the Cash Flow Statement include the following cash flows relating to interest:

2018/19 £'000		2019/20 £'000
(36)	Interest received	(45)
(1,446)	Interest paid	(1,459)
(1,482)		(1,504)

Note 32 Cash Flow Statement – Adjustment to net surplus or deficit on the provision of services for non-cash movements

2018/19 £'000		2019/20 £'000
5,812	Depreciation and impairment	5,694
654	Downward valuations	(671)
7	Amortisation of intangible assets	5
(889)	Increase/decrease in creditors	(3,173)
284	Increase/decrease in debtors	1,299
(24)	Increase/decrease in inventories	1
4,274	Movement in pension liability	2,576
1,427	Carrying amount of non-current assets and non-current assets held for sale, sold, or derecognised	1,277
3,154	Other non-cash items charged to the net surplus/deficit on provision of services	7,811
14,699		21,165

Note 33 Cash Flow Statement - Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities

2018/19 £'000		2019/20 £'000
(1,206)	Capital grants credited to surplus/deficit on the provision of services	(1,637)
(3,720)	Proceeds from the sale of property plant and equipment, investment property and intangible assets	(1,918)
(4,926)		(3,555)

Note 34 Accounting Policies

This note sets out the accounting policies followed in compiling the Council's accounts. The aim of the statement is to explain the basis of the figures in the accounts and to disclose policies that are significant and relevant to the Council.

GENERAL PRINCIPLES

The Statement of Accounts summarises the Council's transactions for the 2018/19 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, which those Regulations require to be prepared in accordance with proper accounting practices.

These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 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.

ACCRUALS OF INCOME AND EXPENDITURE

With the exception of the Cash Flow Statement the accounts are drawn up on the basis that financial transactions are accounted for in the year that it takes place, not necessarily when cash payments are made or received. In particular:

- Fees, charges and rents are due from customers and income from the provision of services are accounted for as income at the date the Council provides the relevant goods or services i.e. when it is probable that the economic benefits associated with the transaction will flow to the Council.
- Supplies and services expenditure is recorded as expenditure when they are consumed. Where there is a gap between the date supplies are received and their consumption, they are carried as inventories on the Balance Sheet.
- Capital works are charged as expenditure when they are completed, and are carried as Assets under Construction on the Balance Sheet until the asset is brought into use.
- Interest receivable on investments and payable on borrowings is accounted for 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 and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Exceptions to this relate to utility bills and other similar payments which do not vary significantly between years and are charged at the date of payment rather than being apportioned between financial years. Also, small amounts outstanding at year end are treated on a payments basis. In total, these do not have a material effect on the year's accounts.
- Where it is doubtful that debts will be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.
- Income and expenditure are credited and debited to the relevant service revenue account, unless they properly represent capital receipts or capital expenditure.

CASH AND CASH EQUIVALENTS

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

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

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.

PRIOR PERIOD ADJUSTMENTS IN ACCOUNTING POLICIES AND ESTIMATES AND ERRORS

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

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

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

CHARGES TO REVENUE FOR NON-CURRENT ASSETS

Service revenue accounts, support services and trading accounts are debited with the following amounts to record the cost of holding non-current assets during the year:

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

The Council is not required to raise council tax to fund depreciation, revaluation and impairment losses or amortisations. These amounts are therefore replaced by the contribution in the General Fund Balance by way of an adjusting transaction within the Capital Adjustment Account in the Movement in Reserve Statement for the difference between the two.

COUNCIL TAX AND NON-DOMESTIC RATES

Billing authorities act as agents, collecting council tax and non-domestic rates (NDR) on behalf of the major preceptors (including government for NDR) and, as principals, collecting council tax and NDR for themselves. Billing authorities are required by statute to maintain a separate fund (i.e. the Collection Fund) for the collection and distribution of amounts due in respect of council tax and NDR. Under the legislative framework for the Collection Fund, billing authorities, major preceptors and central government share proportionately the risks and rewards that the amount of council tax and NDR collected could be less or more than predicted.

Accounting for Council Tax and NDR

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

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

EMPLOYEE BENEFITS

Benefits Payable during Employment

Short-term employee benefits such as wages and salaries, paid annual leave, sick leave and expenses are paid on a monthly basis and charges on an accruals basis to the relevant service line of the Comprehensive Income and Expenditure Statement.

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 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 and accrued flexible working hours earned by employees but not taken before the year-end which employees can carry forward into the next financial year. 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 holiday benefits are charged to revenue in the financial year in which the holiday 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 and are charged on an accruals basis to the relevant service line in the Comprehensive Income and Expenditure Statement at the earlier of when the Council can no longer withdraw the offer of those benefits or when the Council recognises costs for a restructuring.

Post-Employment Benefits (Retirement Pensions)

Most employees of the Council are members of the Local Government Pensions Scheme, administered by Hampshire County Council. The scheme provides defined benefits to members (retirement lump sums and pensions) earned as employees worked for the Council and other relevant bodies.

The liabilities of the pension fund attributable to the Council are included in the Balance Sheet based on an actuarial valuation. Full details of the valuation method are shown in note 17 to the core financial statements.

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:** This is 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 Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs.
- **Net interest on the net defined benefit liability, i.e. net interest expense for the Council:** The change during the period in the net defined benefit liability that arises from the passage of time charged to the Financing and Investment Income and Expenditure line of the Comprehensive Income and Expenditure Statement. This is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the net defined benefit liability at the beginning of the period. Taking into account any changes in the net defined benefit liability during the period as a result of contribution and benefit payments.

Re-measurement comprising:

- **The return on plan assets:** Excluding amounts included in net interest on the net defined benefit liability 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 County Council pension fund:** Cash paid as employer's contributions to the pension fund in settlement of liabilities; not accounted for as an expense.

In relation to retirement benefits, statutory provisions require the General Fund Balance to be charged with the amount payable by the Council to the pension fund 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 transfers to and from the Pensions Reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end. The negative balance that arises on the Pensions Reserve thereby measures the beneficial impact to the General Fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits are earned by employees.

Discretionary Benefits

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

EVENTS AFTER THE BALANCE SHEET DATE

Events after the Balance Sheet date are those events, both favourable and unfavourable, that occur between the date of the Balance Sheet and the date when the Statement of Accounts is authorised for issue. There are two types of event:

- Adjusting events - those that provide evidence of conditions that existed at the Balance Sheet date - for this type of event the accounts are adjusted to reflect such events.
- Non-adjusting events - those that are indicative of conditions that arose after the Balance Sheet date - for this type of event the accounts are not adjusted to reflect such events. However, where the event 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 authorised for issue are not reflected in the Statement of Accounts.

FINANCIAL INSTRUMENTS

Financial Liabilities

Financial liabilities are initially measured at fair value and are carried at their amortised cost. Annual charges to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. In most cases the amount presented in the Balance Sheet is the outstanding principal repayable and interest charged to the Comprehensive Income and Expenditure Statement is the amount payable for the year.

Financial Assets

Financial assets are classified based on a classification and measurement approach that reflects the business model for holding the financial assets and their cashflow characteristics. The two classes that are applicable to the Council are measured at:

- amortised cost, and
- fair value through profit or loss (FVPL)

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

Financial Assets Measured at Amortised Cost

Financial assets are initially measured at their fair value and carried at their amortised cost. Annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For most of the loans that the Council has made, this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the Comprehensive Income and Expenditure Statement is the amount receivable for the year in the loan agreement

Expected Credit Loss Model

The authority recognises expected credit losses on all of its financial assets held at amortised cost, either on a 12-month or lifetime basis. The expected credit loss model also applies to lease receivables and contract assets. Only lifetime losses are recognised for trade receivables (debtors) held by the authority.

Impairment losses are calculated to reflect the expectation that the future cash flows might not take place because the borrower could default on their obligations. Credit risk plays a crucial part in assessing losses. Where risk has increased significantly since an instrument was initially recognised, losses are assessed on a lifetime basis. Where risk has not increased significantly or remains low, losses are assessed on the basis of 12-month expected losses.

Financial Assets Measured at Fair Value through Profit or Loss

Financial assets that are measured at FVPL are initially measured and carried at fair value. Fair value gains and losses are recognised as they arrive in the Surplus or Deficit on the Provision of Services.

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

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

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

Level 1 inputs – quoted prices (unadjusted) in active markets for identical assets that the authority can access at the measurement date.

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

Level 3 inputs – unobservable inputs for the asset.

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

GRANTS AND CONTRIBUTIONS

Government grants and third party contributions and donations are recognised as due to the Council when there is reasonable assurance that the Council will comply with the conditions attached to the payments, and the grants or contributions will be received.

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

Monies advanced as grants and contributions for which conditions have not been satisfied are carried in the Balance Sheet as receipts in advance. 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.

Business Improvement District

A Business Improvement District (BID) scheme applies to the Segensworth area and its business community. The boundary of the BID covers 90% of Fareham and 10% of Winchester Council areas. The scheme is funded by a BID levy paid by non-domestic ratepayers. The annual levy for both councils is collected by the Council and transferred directly to the Segensworth Business Forum to fund projects identified by the business community.

Community Infrastructure Levy

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

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

HERITAGE ASSETS

Heritage Assets are assets which have historical, artistic, scientific, technological, geophysical or environmental qualities and are held and maintained principally for their contribution to knowledge and culture.

Heritage assets shall normally be recognised and measured in accordance with the Council's accounting policies on property, plant and equipment. Where it is not practicable to obtain a valuation at a cost which is commensurate with the benefits to users of the financial statements, heritage assets shall be measured at historical cost (less any accumulated depreciation, amortisation and impairment losses). Where there is no historical cost information, it will not be recognised in the Balance Sheet but, where material, will be described in the notes to the accounts.

An assessment is made as to whether the asset has an infinite or limited economic life. If it is a limited economic life then it is depreciated on a straight line basis over that term.

The Council does not have a programme to dispose of Heritage Assets as they are being held and maintained for the benefit of future generations.

INTANGIBLE ASSETS

Expenditure on assets that do not have physical substance but are controlled by the Council (e.g. software licences) is capitalised when it is expected that future economic benefits or service potential will flow from the intangible asset to the Council.

Intangible assets are measured initially at cost. Amounts are not re-valued, as the fair value (i.e. estimated market value) of the assets cannot be determined by reference to an active market. The depreciable

amount of an intangible asset is amortised over its useful life to the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

Where expenditure on intangible assets qualifies as capital expenditure for statutory purposes, amortisation, impairment losses and disposal gains and losses are not permitted to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and (for any sale proceeds greater than £10,000) the Capital Receipts Reserve.

INVENTORIES AND LONG TERM CONTRACTS

Inventories are included in the Balance Sheet at cost as this is not materially different from the recommended practice of carrying them at the lower of cost or net realisable value.

Long term contracts are accounted for on the basis of charging the Surplus or Deficit on the Provision of Services with the value of works and services received under the contract during the financial year.

INVESTMENT PROPERTIES

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

Investment properties are measured initially at cost and subsequently at fair value. Investment properties are not depreciated but are revalued annually according to market conditions. 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 respect of leases on investment properties are credited to the Financing and Investment Income line and result in a gain for the General Fund Balance. However, revaluation and disposal gains and losses are not permitted by statutory arrangements to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and (for any sale proceeds greater than £10,000) the Capital Receipts Reserve.

LEASES

Leases are classified as either finance leases or operating leases. A finance lease is any arrangement where substantially all the risks and rewards incidental to ownership of the property, plant or equipment transfer from the lessor to the lessee. Leases that do not transfer substantially all of the risks and rewards are classified as operating leases.

Where an arrangement includes both land and buildings, the land and buildings elements are considered separately for classification.

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

The Council as Lessee – Finance Leases

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

Lease payments are apportioned between:

- a charge for the acquisition of the interest in the property, plant or equipment applied to write down the lease liability, and

- a finance charge (debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

Property, Plant and Equipment recognised under finance leases is accounted for using the policies applied generally to such assets, subject to depreciation being charged over the lease term if this is shorter than the asset's estimated useful life (where ownership of the asset does not transfer to the Council at the end of the lease period).

The Council as Lessee – Operating Leases

The Council does not have any material operating leases where the Council is lessee.

The Council as Lessor – Finance Leases

The Council does not have any finance leases where the Council is lessor.

The Council as Lessor – 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 Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Credits are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments (e.g. there is a premium paid at the commencement of the lease). Initial direct costs incurred in negotiating and arranging the lease are added to the carrying amount of the relevant asset and charged as an expense over the lease term on the same basis as rental income.

OVERHEADS AND SUPPORT SERVICES

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

PROPERTY, PLANT AND EQUIPMENT

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

Recognition

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

A de-minimus level of £10,000 is applied to capital expenditure. Any expenditure on property, plant or equipment below this amount is not recorded as an asset.

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

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

- Land and buildings are measured at current value. This means Existing Use Value (EUV) for non-specialised properties or Depreciated Replacement Cost (DRC) for specialised properties.
- Infrastructure assets are measured at depreciated historical cost.
- Community assets and assets under construction are measured at historical cost.

- Council dwellings are measured at current value, determined using the basis of Existing Use Value for Social Housing (EUV-SH).

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

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

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.

Impairment

Assets are assessed at each year-end for impairment. Where there is impairment and the amount is estimated to be material, the recoverable amount of the asset is estimated and, where this is less than the carrying amount, an impairment loss is recognised for the shortfall.

Where impairment losses 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.

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 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:

- council dwellings – calculated on a straight-line basis over the useful life of the major components of the property (excluding land value) as estimated by a suitable qualified officer
- other buildings - straight-line allocation over the useful life of the property as estimated by the valuer
- vehicles, plant, furniture and equipment - straight-line allocation over the useful life of the asset, as advised by a suitably qualified officer
- infrastructure - straight-line allocation over individually assessed life for each asset.

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.

Componentisation of an asset will be considered where:

- The carrying value of an asset is greater than £1 million and
- A component is at least 20% of the carrying value of the asset.

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.

Disposals and Non-current Assets Held for Sale

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

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

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

Amounts received for a disposal in excess of £10,000 are categorised as capital receipts. A proportion of receipts relating to a housing disposal is 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. Receipts are appropriated to the Reserve from the General Fund Balance in the Movement in Reserves Statement.

PROVISIONS, CONTINGENT LIABILITIES AND CONTINGENT ASSETS

Provisions are made where an event has taken place that gives the Council a financial obligation that probably requires settlement but where the timing and amount of settlement is uncertain. 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.

Contingent Liabilities

A contingent liability arises where an event has taken place that gives the Council a possible obligation whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Council. Contingent liabilities also arise in circumstances where a provision would

otherwise be made but either it is not probable that an outflow of resources will be required or the amount of the obligation cannot be measured reliably. Contingent liabilities are not recognised in the Balance Sheet but disclosed in a note to the accounts.

Contingent Assets

A contingent asset arises where an event has taken place that gives the Council a possible asset whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Council. Contingent assets are not recognised in the Balance Sheet but disclosed in a note to the accounts where it is probable that there will be an inflow of economic benefits or service potential.

RESERVES

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

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

REVENUE EXPENDITURE FUNDED FROM CAPITAL UNDER STATUTE

Expenditure incurred during the year, that may be capitalised under statutory provisions but that does not result in the creation of a non-current asset, is charged as expenditure to the relevant service in the 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 Statement from the General Fund Balance to the Capital Adjustment Account reverses out the amounts charged, so there is no impact on the level of council tax.

VAT

Income and expenditure excludes any amounts related to VAT to the extent that they are recoverable from Her Majesty's Revenue and Customs.



4

SUPPLEMENTARY ACCOUNTS AND EXPLANATORY NOTES

Housing Revenue Account - Income and Expenditure Statement

The Housing Revenue Account (HRA) Income and Expenditure Statement shows the economic cost in the year of providing housing services in accordance with generally accepted accounting practices, rather than the amount to be funded from rents and government grants. Authorities charge rents to cover expenditure in accordance with regulations; this may be different from the accounting cost. The increase or decrease in the year, on the basis of which rents are raised, is shown in the Movement on the HRA Statement.

	2019/20 £'000	2018/19 £'000
Income		
Gross rent income		
- Dwellings	(10,720)	(10,791)
- Other	(350)	(340)
Charges for services and facilities	(1,177)	(1,164)
Contributions towards expenditure	(21)	(37)
Total income from service	(12,268)	(12,332)
Expenditure		
Repairs and maintenance	2,759	3,158
Supervision and management	3,097	2,841
Rents, rates, taxes and other charges	137	78
Depreciation and impairment of non-current assets (note 7)	215	(1,907)
Debt management expenses	27	31
Provision for doubtful debts	118	124
Total expenditure on service	6,353	4,325
Net Expenditure or Income of HRA Services as included in the Council's Comprehensive Income and Expenditure Statement	(5,915)	(8,007)
HRA service share of corporate and democratic core	140	449
Net Expenditure for HRA Services	(5,775)	(7,558)
Gain on sale of HRA non-current assets	(556)	(1,439)
Change in fair value of Investment Properties	(1)	(15)
Interest payable and similar charges	1,818	1,795
Interest receivable	(118)	(67)
Pension interest cost	251	267
Capital Grants and contributions receivable	(1,037)	0
(Surplus) or Deficit for Year on HRA Services	(5,418)	(7,017)

Movement on the HRA Statement

	2019/20 £'000	2018/19 £'000
Balance on the HRA at the end of previous year	(1,302)	(1,824)
(Surplus) or Deficit for year on HRA Income and Expenditure Statement	(5,418)	(7,017)
Remove gain on sale of HRA non-current assets	555	1,456
Pension reserve contributions	(528)	(640)
Difference between any other item of income and expenditure determined in accordance with the Code and determined in accordance with statutory HRA requirements	-	(1)
Capital expenditure charged to HRA Balances	2,006	1,228
Transfers to/from Major Repairs Reserve	2,635	2,544
Transfers to/from Capital Adjustment Account	822	1,923
Adjustments between accounting basis and funding basis under statute	5,490	6,510
Net (increase) or decrease before transfers to or from the reserves	72	(507)
Transfer to/(from) reserves	432	1,029
(Increase) or decrease in year on the HRA	504	522
Surplus Carried Forward	(798)	(1,302)

The total surplus carried forward excludes balances of:

- Major Repairs Reserve
- Housing Repairs Account
- Leaseholder Repairs Reserve
- Capital Development Fund
- Debt Repayment Fund

These are included within the Movement in Reserves Statement.

Notes to the Housing Revenue Account

Note 1 Housing Stock

The Council's housing stock, including shared ownership properties, was made up as follows:

	31 March 2020	31 March 2019
Houses	773.25	778.75
Flats	1,445.00	1,449.00
Bungalows	166.00	166.00
	2,384.25	2,393.75

During the year 16 homes were sold under the right to buy scheme (13 in 2018/19) and no shared-owner properties were fully acquired by their owners (0.5 in 2018/19). The Council bought 8 homes that were 100% in private ownership and fully acquired 1 shared-owner home (8 in private ownership and 3 shared-owner homes in 2018/19), no homes were sold for private development (14 in 2018/19). One flat included in 2018/19 had been sold under the right to buy scheme in March 2017.

Note 2 Value of Housing Revenue Account Property

Council dwellings have been valued in their current use with an allowance for occupation by a secure social tenant including the right to buy where applicable. The vacant possession value at 31 March 2020 is £385 million. The difference in valuation is the economic cost to the government of providing council housing at less than open market rents.

The table below details the opening and closing values of the various classes of HRA assets. It also shows the various movements in values resulting from additions, disposals, revaluations, impairments and reclassification of the assets.

Movement in Values 2019/20	Council Dwellings £'000	Other Land and Buildings £'000	Plant and Equipment £'000	Assets Under Construction £'000	Total £'000
Cost or Valuation					
At 1 April 2019	124,055	5,254	87	129	129,525
Additions	3,838	-	37	1,772	5,647
Revaluation Increases/(decreases) to RR	-	-	-	-	-
Revaluation Increases/(decreases) to SDPS	14	-	-	-	14
Derecognition - Disposals	(1,021)	(8)	-	-	(1,029)
Other reclassifications	-	-	-	-	-
At 31 March 2020	126,886	5,246	124	1,901	134,157
Depreciation and Impairment					
At 1 April 2019	2,410	99	29	-	2,538
Depreciation Charge	2,530	97	7	-	2,634
Depreciation written out to RR	-	-	-	-	-
Depreciation written out to SDPS	(2,410)	(99)	-	-	(2,509)
Derecognition – Disposals	(21)	-	-	-	(21)
At 31 March 2020	2,509	97	36	-	2,642
Net Book Value					
At 31 March 2020	124,377	5,149	88	1,901	131,515
At 31 March 2019	121,645	5,155	58	129	126,987

Movement in Values 2018/19	Council Dwellings £'000	Other Land and Buildings £'000	Plant and Equipment £'000	Assets Under Construction £'000	Total £'000
Cost or Valuation					
At 1 April 2018	120,239	5,356	87	-	125,682
Additions	3,261	-	-	129	3,390
Revaluation Increases/(decreases) to RR	-	(17)	-	-	(17)
Revaluation Increases/(decreases) to SDPS	1,997	-	-	-	1,997
Derecognition - Disposals	(1,442)	(85)	-	-	(1,527)
Other reclassifications	-	-	-	-	-
At 31 March 2019	124,055	5,254	87	129	129,525
Depreciation and Impairment					
At 1 April 2018	2,459	93	21	-	2,572
Depreciation Charge	2,437	99	8	-	2,544
Depreciation written out to RR	-	-	-	-	-
Depreciation written out to SDPS	(2,459)	(93)	-	-	(2,552)
Derecognition - Disposals	(27)	-	-	-	(27)
At 31 March 2019	2,410	99	29	-	2,538
Net Book Value					
At 31 March 2019	121,645	5,155	58	129	126,987
At 31 March 2018	117,780	5,263	66	-	123,110

RR = Revaluation Reserve
SDPS = Surplus/Deficit on the Provision of Services

Note 3 Major Repairs Reserve

	2019/20 £'000	2018/19 £'000
Balance at 1 April	1,838	984
Receipts in year	2,634	2,544
Used in year	(2,155)	(1,690)
Balance at 31 March	2,317	1,838

Note 4 Housing Repairs Account

	2019/20 £'000	2018/19 £'000
Balance at 1 April	1,500	1,500
Contribution from HRA	1,907	2,981
Other Income	147	171
Expenditure	(2,762)	(3,170)
Transfer to Reserve	708	18
Balance at 31 March	1,500	1,500

Note 5 Capital Financing

The financing of capital expenditure on HRA property during the year is shown below. A proportion of this expenditure led to an increase in the value of current housing stock, the remainder increases the stock through acquisition and housing developments that are underway.

	Houses and Flats £'000
Capital Receipts	525
Capital Development Fund	715
Major Repairs Reserve	2,155
Revenue Contributions	1,291
Housing Grants	1,037
Expenditure in 2019/20	5,723

Note 6 Capital Receipts

Capital receipts from the Right to Buy sales of HRA property in 2019/20 were £1.576 million (£1.472 million in 2018/19).

Note 7 Depreciation and Impairment

		2019/20 £'000	2018/19 £'000
Depreciation	Dwellings	2,530	2,437
	Garages	97	99
	Plant and Equipment	7	8
	Total	2,634	2,544
Amortisation	Intangible Asset	5	5
Revaluation (Gain)/Loss	Dwellings	(2,424)	(4,456)
Total Charge		215	(1,907)

For 2019/20 the adjustment factor applied to the market value of properties to derive the Existing Use-Social Housing Valuation has remained constant at 33%.

Note 8 Arrears

At 31 March 2020, arrears were 5.41% of the gross income due in the year. 2019/20 was a 53 week rent year (2018/19 was a 52 week rent year). The arrears figures are as follows:

	2019/20 £'000	2018/19 £'000
Arrears as at 31 March	691	606
Gross Income	12,782	12,674
Provision for Uncollectable Rents	580	515
Arrears as a percentage of gross income	5.41%	4.78%

Collection Fund

This statement represents the transactions of the Collection Fund, a statutory fund separate from the General Fund of the Council. The Collection Fund accounts independently for income relating to council tax and non-domestic rates on behalf of those bodies (including the Council's own General Fund) for whom the income has been raised. The costs of administering collection are accounted for in the General Fund.

	Council Tax £'000	Business Rates £'000	2019/20 Total £'000	2018/19 Total £'000
Income				
Council Tax				
Billed to Taxpayers	71,992	-	71,992	68,603
Non-Domestic Rates - Due	-	41,814	41,814	42,179
Transitional Protection Payments	-	(554)	(554)	(998)
Total Income	71,992	41,260	113,252	109,784
Expenditure				
Collection Fund Surplus/(Deficit) in Previous Year				
Central Government	-	3,113	3,113	2,049
Fareham Borough Council	(106)	2,491	2,385	1,615
Hampshire County Council	(822)	560	(262)	176
Police and Crime Commissioner for Hampshire	(121)	-	(121)	(28)
Hampshire Fire and Rescue	(45)	62	17	30
	(1,094)	6,226	5,132	3,842
Precepts, Demands and Shares				
Central Government	-	19,659	19,659	18,589
Fareham Borough Council	6,875	15,728	22,603	21,484
Hampshire County Council	53,074	3,539	56,613	54,513
Police and Crime Commissioner for Hampshire	8,645	-	8,645	7,561
Hampshire Fire and Rescue	2,905	393	3,298	3,173
	71,499	39,319	110,818	105,320
Charges to the Collection Fund				
Cost of Collection Allowance	-	138	138	138
Increase/(Decrease) in Appeals Provision	-	651	651	2,083
Increase/(Decrease) in Bad Debt Provision	138	154	292	(146)
	138	943	1,081	2,075
Total Expenditure	70,543	46,488	117,031	111,237
Fund balance brought forward at 1 April	(489)	1,301	812	2,265
Surplus/(Deficit) for the Year	1,449	(5,228)	(3,779)	(1,453)
Fund balance carried forward at 31 March	960	(3,927)	(2,967)	812

NOTES TO THE COLLECTION FUND

Note 1 Council Tax

Council Tax income derives from the charges raised according to the value of residential properties, classified into eight valuation bands estimating 1 April 1991 values for this purpose. Individual charges are calculated by estimating the amount of income required from the Collection Fund by Hampshire County Council, the Police and Crime Commissioner for Hampshire, Hampshire Fire and Rescue Authority and the Council for the forthcoming year and dividing this by the council tax base. The council tax base is the total number of properties in each band adjusted by a proportion to convert the number to a Band D equivalent and adjusted for discounts 42,910 for 2019/20 (42,605 for 2018/19). This basic amount of council tax for a Band D property is multiplied by the proportion specified for the particular band to give an individual amount due.

The basic amount of Council Tax for a Band D property was:

	2019/20 £'000	2018/19 £'000
Fareham Borough Council	160.22	155.22
Police and Crime Commissioner for Hampshire	201.46	177.46
Hampshire Fire and Rescue	67.71	65.74
Hampshire County Council	1,236.87	1,200.96
Total	1,666.26	1,599.38

Note 2 Non-Domestic Rates (NDR)

NDR is organised on a national basis. The Government specifies a rate in the £ (in 2019/20, 49.1p for small businesses and 50.4p for large; in 2018/19, 48.0p for small businesses and 49.3p for large) and, subject to the effects of transitional arrangements, local businesses pay rates calculated by multiplying their rateable value by that amount. The Council is responsible for collecting rates due from the ratepayers in its area. The rateable value at 31 March 2020 was £102,502,408 (£102,725,606 as at 31 March 2019). This rateable value is based on the valuation list effective from 25 March 2020.

Until 2012/13 the proceeds were paid into an NDR pool administered by the Government. The Government re-distributed the sums paid into the pool back to local authorities' General Funds on the basis of a fixed amount per head of population.

In 2013/14 a new system of Retained Business Rates was introduced, changing the way in which this funding stream is received. The Council collects business rates due in the usual way, but instead of paying it all over to the national pool, 50% is paid to Central Government, 9% to Hampshire County Council, 1% to Hampshire Fire and Rescue Authority and 40% is retained by the Council.

At the end of the year the Council compares its 40% retained rates income with the Business Rates Baseline set at the start of the system (based on rates collected up to 2011/12) and the Baseline funding level for the financial year. For 2019/20, the Business Rates Baseline was £16,745,632 (2018/19 £15,893,003) and the Baseline funding level was £1,897,692 (2018/19 £1,855,178).

Note 3 Collection Fund Balance

The Collection Fund balance for 2019/20 was a deficit of £3 million (a deficit of £0.8 million in 2018/19) which is included within the Balance Sheet. The amounts in respect of Fareham Borough Council are contained within the reserves section of the Balance Sheet and amounts due to the other major preceptors are shown within creditors.



5

GLOSSARY OF TERMS

GLOSSARY OF TERMS

Accruals

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

Actuarial Gains and Losses

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

Amortised Cost

The amortised cost of a financial instrument is the amount at which the instrument is measured at initial recognition (usually cost) less any repayments of principal or reduction for impairment, or any adjustment for the difference between the initial amount and the maturity amount. Examples include adjustments for transaction costs or deferred interest payments that are required to be spread over the life of the instrument.

Carrying Amount

The amount at which an asset is recognised after deducting any accumulated depreciation and impairment losses.

Cash and Cash Equivalents

Cash comprises of cash on hand and demand deposits. Cash equivalents are short term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Community Assets

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

Contingency

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

Corporate and Democratic Core

The Corporate and Democratic Core is comprised of Democratic Representation and Management which includes corporate policy making and all other member-based activities and Corporate Management which includes activities and costs that related to the general running of the Council.

Current Service Costs (Pensions)

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

Defined Benefit Scheme

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

Depreciation

The systematic allocation of the depreciable amount of an asset over its useful amount.

Depreciated Replacement Cost (DRC)

A method of valuation which provides the current cost of replacing an asset with its modern equivalent asset less deductions for physical deterioration and relevant forms of obsolescence and optimisation.

Discretionary Benefits

Retirement benefits which the employer has no legal, contractual, or constructive obligation to award and which are awarded under the Council's discretionary powers.

Exceptional Items

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

Expected rate of return on pensions assets

For a funded defined benefit scheme, the average rate of return, including both income and changes in fair value but net of scheme expenses, expected over the remaining life of the related obligation on the assets held by the scheme.

Fair Value

The price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measure ate

Finance Lease

A lease that transfers substantially all of the risks and rewards incidental to ownership of an asset. Title may or may not eventually be transferred.

Government Grants

Assistance by government and inter-government agencies and similar bodies, whether local, national or international, in the form of cash or transfers of assets to an Council in return for past or future compliance with certain conditions relating to the activities of the Council.

Heritage Assets

A Heritage Asset is an asset with historical, artistic, scientific, technological, geophysical or environmental qualities that is held and maintained principally for its contribution to knowledge and culture.

Historical Cost

The carrying amount of an asset as at 1 April 2007 or at the date of acquisition, whichever is the later, and adjusted for subsequent depreciation or impairment (if applicable).

Infrastructure Assets

Non-current assets that are inalienable, expenditure on which is recoverable only by continued use of the asset created. Examples of infrastructure assets are highways and footpaths.

Interest Cost (Pensions)

For a defined benefit scheme, the expected increase in the present value of the scheme liabilities during the period, because benefits are one period closer to settlement.

Investments (Non Pensions Fund)

A long-term investment is an investment that is intended to be held for use on a continuing basis in the activities of the Council. That is, where the intention is to hold the investment is for the long term, or where the Council's ability to dispose of the investment is restricted. Investments, other than those related to the pension fund, that do not meet the above criteria are classified as current assets.

Investments (Pensions Fund)

The investments of the Pensions Fund will be accounted for in the statements for that Fund. However, authorities participating in the fund are also required to disclose the attributable share of pension scheme assets associated with their underlying obligations.

Investment Properties

Interest in land and/or buildings in respect of which construction work and development have been completed and which are held for their investment potential, any rental income being negotiated at arm's length.

Material

Omissions or misstatements of items are material if they could, individually or collectively, influence the decisions or assessments of users made on the basis of the financial statements. Materiality depends on the nature or size of the omission or misstatement judged in the surrounding circumstances. The nature or size of the item, or a combination of both, could be the determining factor.

Net Book Value

The amount at which non-current assets are included in the balance sheet, i.e. their historical cost or current value less the cumulative amounts provided for depreciation.

Net Current Replacement Cost

The cost of replacing or recreating the particular asset in its existing condition and in its existing use, i.e. the cost of its replacement or of the nearest equivalent asset, adjusted to reflect the current condition of the existing asset.

Non-Current Assets

Tangible assets that yield benefits to the Council and the services it provides for a period of more than one year.

Non-Operational Asset

Non-current assets held by a Council but not directly occupied, used or consumed in the delivery of services. Examples of non-operational assets are investment properties and assets that are surplus to requirements, pending sale or redevelopment.

Operating Leases

A lease other than a finance lease.

Operational Assets

Non-current assets held and occupied, used or consumed by the Council in the direct delivery of those services for which it has a statutory or discretionary responsibility.

Past Service Costs

For a defined benefit pension scheme, the increase in the present value of the scheme liabilities related to employee service in prior periods, which has arisen in the current period as a result of, the introduction of, or, improvement to, retirement benefits.

Post Balance Sheet Events

Those events, favourable and unfavourable, which occur between the balance sheet date and the date on which the Statement of Accounts is signed by the responsible financial officer.

Prior Year Adjustments

Material adjustments applicable to prior years, arising from changes in accounting policies or from the correction of fundamental errors. They do not include normal recurring corrections or adjustments of accounting estimates made in prior years.

Projected Unit Method

An accrued benefits valuation method in which the scheme liabilities make allowance for projected earnings.

Property, Plant and Equipment

Non-current assets that are held for use in the production or supply of goods and services, for rental to others, or for administrative purposes, and expected to be used during more than one period.

Revenue Expenditure Funded from Capital under Statute (REFCUS)

Expenditure which may properly be deferred, but which does not result in, or remain matched with, tangible assets. Examples are expenditure on renovation grants and assistance to Housing Associations enabling them to provide accommodation.

Related Parties

Related parties include Central Government, elected members of the Council and certain senior officers. For individuals identified as related parties the following are also related parties: members of their close family or of the same household and partnerships, trusts, or other entities in which they have a controlling interest.

Retirement Benefits

All forms of consideration given by an employer in exchange for services rendered by employees that are payable after the completion of employment. Retirement benefits do not include termination benefits payable as a result of an employer's decision to terminate an employee's employment before the normal retirement date, or an employee's decision to accept voluntary redundancy in exchange for those benefits, as these are not given in exchange for services rendered by employees.

Scheme Liabilities

The liabilities of a defined benefit scheme for outgoings due after the valuation date. Scheme liabilities measured using the projected unit method reflecting the benefits that the employer is committed to provide for service up to the valuation date.

Useful Life

The period which an asset is expected to be available for use by the Council.



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INDEPENDENT AUDITOR'S REPORT

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CONTACTS

HOW TO CONTACT US

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FAREHAM

BOROUGH

COUNCIL

STATEMENTS OF

ACCOUNTS

2019/2020

FAREHAM

BOROUGH COUNCIL

Report to Audit and Governance Committee

Date: 23 November 2020

Report of: Deputy Chief Executive Officer

Subject: TREASURY MANAGEMENT PROGRESS REPORT

SUMMARY

In accordance with the Chartered Institute of Public Finance and Accountancy (CIPFA) Treasury Management Code of Practice, the Council is required to maintain a Treasury Management Strategy and provide updates on the implementation of that strategy.

The Audit and Governance Committee is the responsible body to examine and assess the effectiveness of the Council's treasury management policy and strategy.

In accordance with this role, this report sets out the mid-year review of treasury management activity up to 30 September 2020 which confirms compliance with the strategy approved by Full Council on 21 February 2020.

The Audit and Governance Committee's areas of responsibility for Treasury Management is to ensure effective scrutiny of the implementation of the Council's Treasury Management Strategy and Policy.

RECOMMENDATION

It is RECOMMENDED that the Audit and Governance Committee: -

- (a) reviews the contents of the report; and
- (b) provide comments in terms of the effectiveness of the treasury management strategy.

INTRODUCTION

1. The CIPFA (Chartered Institute of Public Finance and Accountancy) Code of Practice for Treasury Management recommends that members be updated on treasury management at least twice yearly (mid-year and at year end). This report therefore ensures the Council is implementing best practice in accordance with the Code.
2. The Council's Treasury Management Strategy for 2020/21 was approved by Full Council on 21 February 2020 and can be found in Appendix A.
3. The Council has borrowed and invested large sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. This report covers treasury activity and the associated monitoring and control of risk.
4. The 2017 Prudential Code includes a requirement for local authorities to provide a Capital Strategy, a summary document approved by Full Council, covering capital expenditure and financing, treasury management and non-treasury investments. The Council's Capital Strategy for 2020/21 was approved by Full Council on 21 February 2020.
5. An economic commentary by the Council's Treasury Advisors, Arlingclose, can be found in Appendix B.

BORROWING ACTIVITY

6. At 30 September 2020, the Council held £53 million of loans, (a decrease of £4.7 million on 31 March 2020). The Council expects to borrow externally up to an additional £5 million in 2020/21 to part fund the capital programme.
7. The Council's main objective when borrowing continues to be striking an appropriately low risk balance between securing low interest rates and achieving cost certainty over the period for which the funds are required.
8. With short-term interest rates remaining much lower than long-term rates and temporary investments earning Bank Rate or lower, the Council considered it to be more cost effective in the near term to use internal resources and short-term loans. This strategy enabled the Council to reduce net borrowing costs and reduce overall treasury risk.
9. Borrowing activity to 30 September 2020 was:

	Balance on 31 March 2020 £'000	Balance on 30 Sept 2020 £'000	Average Rate
Long-term borrowing	40,000	40,000	3.50%
Short-term borrowing	15,000	10,000	0.93%
Portchester Crematorium	2,659	2,967	0.25%
Total Borrowing	57,659	52,967	

The Council holds investments from Portchester Crematorium Joint Committee which is treated as a temporary loan.

INVESTMENT ACTIVITY

10. On 1 April 2020, the Council received central government funding to support small and medium sized businesses during the coronavirus pandemic through grant schemes. £20.2 million was received and temporarily invested in short dated, liquid instruments such as call accounts and money market funds, until needed to fund make a payment to a qualifying business.
11. The Council holds invested funds, representing income received in advance of expenditure plus balances and reserves held. During the six-month period, the Council's investment balance ranged between £14 and £39 million due to timing differences between income and expenditure.
12. Both the CIPFA Code and government guidance require the Council to invest its funds prudently, and to have regard to the security and liquidity of its treasury investments before seeking the optimum rate of return or yield. The Council's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income.
13. 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. The policy details the high quality and secure counterparty types the Council can invest with.
14. Given the continuing risk and low returns from short-term unsecured bank investments, the Council has diversified into more secure and higher yielding asset classes. £12 million that is available for longer-term investment was moved from bank and building society deposits into externally managed strategic pooled diversified income funds.
15. These funds have no defined maturity date but are available for withdrawal after a notice period. Their performance and continued suitability in meeting the Council's investment objectives are regularly reviewed. Strategic fund investments are made in the knowledge that capital values will move both up and down on months, quarters and even years; but with the confidence that over a three to five-year period total returns will exceed cash interest rates.
16. Details on investment activity to 30 September 2020 are summarised in the table below:

	Balance on 31 March 2020 £'000	Balance on 30 Sept 2020 £'000	Average Rate
Long-term Pooled Funds	10,539	11,005	3.87%
Banks and Building Societies	0	4,000	0.26%
Money Market Funds	4,300	3,250	0.07%
Total Investments	14,839	18,255	

17. In 2020/21, the Council expects to receive significantly lower income from its cash and short-dated money market investments and from its externally managed funds than it did in 2019/20. Dividends and income paid will ultimately depend on factors including the duration of COVID-19 and the extent of its economic impact.

COMMERCIAL PROPERTIES

18. 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.
19. Since the Executive approval of a Commercial Property Investment Acquisition Strategy in January 2013, the Council has purchased 10 commercial investment properties as summarised below, averaging a return of 6.8% and expected to generate rental income of £2.6 million during 2020/21.

Property Type	Purchase Cost £'000	Current Value £'000
Retail	27,783	22,195
Commercial	10,100	11,078
Other	1,890	2,050
Total	39,773	35,323

20. The current value has decreased overall by £4.45 million mainly in the retail sector, offset by increases in the commercial and other sector. However, the annual rental income achieved is in line with forecast.
21. Property valuations are undertaken annually, to ensure that the Council's balance sheet reflects the current opinion of the value of the Council's assets. Fluctuations in value do not represent actual gains or losses, but do indicate market sentiment, which is often linked to rental income levels and lease terms and conditions.
22. The Council's total investment property portfolio is shown below and includes Fareham Shopping Centre, Faretec and industrial estates at Palmerston Business Park and Newgate Lane.

Property Type	Current Value £'000
Retail	36,077
Commercial	18,796
Other	4,403
Office	3,786
Leisure	1,202
Total	64,264

BUDGETED INCOME AND OUTTURN

23. Our treasury advisor Arlingclose expects Bank Rate to remain at 0.10% for the foreseeable future however further cuts to Bank Rate to zero or even negative territory cannot be completely ruled out.
24. During the Emergency Budget setting process, the net interest budget for 2020/21 was reduced by £136,000 to £559,700 (£603,300 actual in 2019/20) to reflect the reduction in investment returns.

COMPLIANCE WITH TREASURY AND PRUDENTIAL INDICATORS

25. The Council confirms compliance with its Treasury and Prudential Indicators for 2020/21, which was set on 21 February 2020 as part of the Council's Treasury Management Strategy.
26. Performance for the first half of the year is shown in Appendix C. During the financial year to date the Council has operated within the treasury limits and prudential indicators.

Appendices:

- A:** Treasury Management Strategy and Prudential Indicators 2020-21
- B:** Economic Commentary and Outlook by Arlingclose
- C:** Treasury and Prudential Indicators

Background Papers: None

Reference Papers:

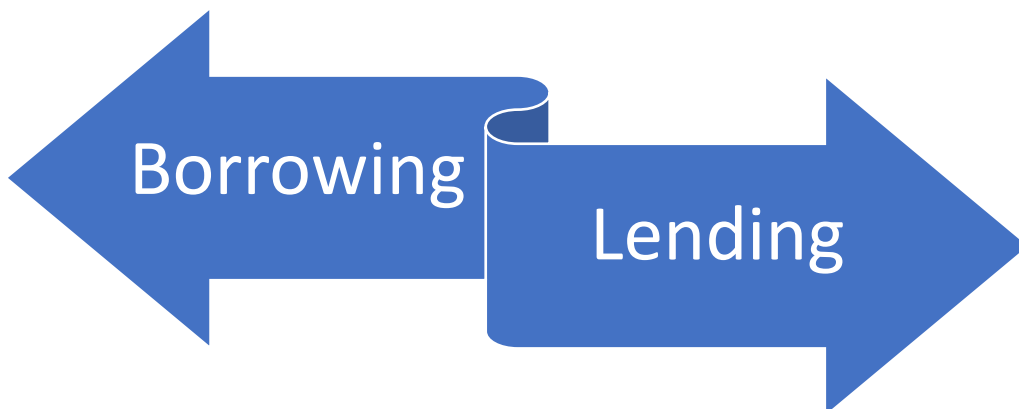
- Treasury Management Strategy and Prudential Indicators 2020-21, Council, 21 February 2020
- Prudential Code for Capital Finance in Local Authorities (2017)
- Treasury Management in the Public Services Code of Practice (2017)

Enquiries:

For further information on this report please contact Caroline Hancock (Ext 4849)

FAREHAM
BOROUGH COUNCIL

**TREASURY MANAGEMENT
STRATEGY
AND
INVESTMENT STRATEGY
2020/21**



INTRODUCTION

WHAT IS TREASURY MANAGEMENT?

1. Treasury Management is defined as:

The management of the organisation's cash flows, its banking, money market and capital market transactions;

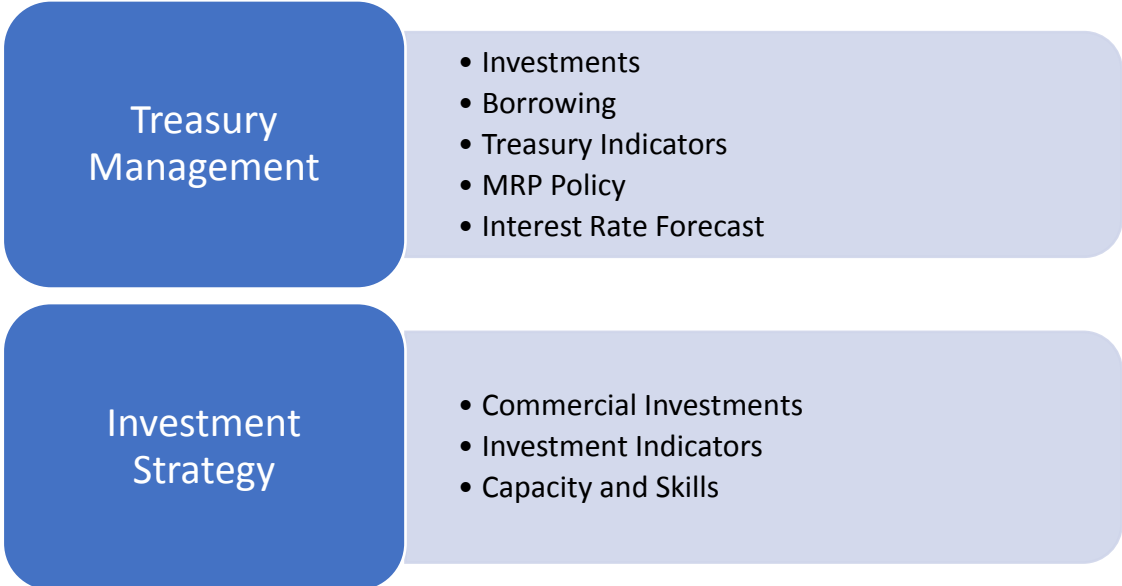
the effective control of the risks associated with those activities and the pursuit of optimum performance consistent with those risks.

2. The Council operates a balanced budget, which broadly means cash raised during the year will meet its cash expenditure. There are two aspects to the treasury management service:

- a) To ensure the cash flow is adequately planned, with **cash being available when it is needed**. Surplus monies are invested in low risk counterparties or instruments commensurate with the Council's low risk appetite, providing adequate liquidity initially before considering investment return.
- b) To ensure the cash flow meets the Council's **capital plans**. These capital plans provide a guide to the **borrowing need** of the Council. Essentially this is the longer term cash flow planning to ensure that the Council can meet its capital spending requirements. The management of longer term cash may involve arranging long or short term loans, or using longer term cash flow surpluses. On occasion any debt previously drawn may be restructured to meet Council risk or cost objectives.

CONTENT OF THE TREASURY MANAGEMENT AND INVESTMENT STRATEGIES

3. These strategies set out the expected approach to treasury management and investment activities for 2020/21. It covers two main areas:



4. The content of the Strategies is designed to cover the requirements of the Local

Government Act 2003, the CIPFA Prudential Code, the CIPFA Treasury Management Code and the MHCLG Investment Guidance.

REPORTING REQUIREMENTS

5. The Council receives and approves three main reports each year in relation to Treasury Management, which incorporate a variety of policies, estimates and actuals. The three reports are:



6. The Executive Committee is responsible for the implementation and monitoring of these reports whilst the Audit and Governance Committee is responsible for the effective scrutiny of the treasury management strategy and policies.

TREASURY MANAGEMENT STRATEGY

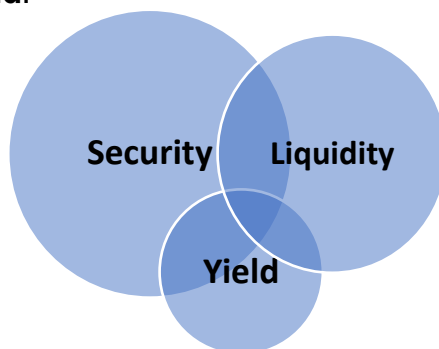
INVESTMENTS

Current Portfolio Position

7. The Council holds invested funds, representing income received in advance of expenditure plus balances and reserves held. In the past 12 months, the Council's investment balance has ranged between £12 million and £24 million, and similar levels are expected to be maintained in the forthcoming year.

Treasury Investment Strategy

8. The CIPFA Code requires the Council to invest its funds prudently, and to have regard to the **security** and **liquidity** of its investments before seeking the highest rate of return, or **yield**.



9. The Council's objective when investing money is to strike an appropriate balance between **risk and return**, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income. Where balances are expected to be invested for more than one year, the Council will aim to achieve a total return that is equal or higher than the prevailing rate of inflation, in order to maintain the spending power of the sum invested.
10. If the UK enters into a recession in 2020/21, there is a small chance that the Bank of England could set its Bank Rate at or below zero, which is likely to feed through to **negative interest rates** on all low risk, short-term investment options. This situation already exists in many other European countries. In this event, security will be measured as receiving the contractually agreed amount at maturity, even though this may be less than the amount originally invested.
11. Given the increasing risk and very low returns from short-term unsecured bank investments, the Council where practical and reasonable, aims to further **diversify into more secure and/or higher yielding asset classes**. This is especially the case for the estimated £12m that is available for longer-term investment. The majority of the Council's surplus cash is currently invested in short-term unsecured bank deposits and money market funds.
12. Under the new IFRS 9 standard, the accounting for certain investments depends on the Council's **business model** for managing them. The Council aims to achieve value from its internally managed treasury investments by a business model of collecting the contractual cash flows and therefore, where other criteria are also met, these investments will continue to be accounted for at amortised

cost.

Approved Counterparties

13. The Council may invest its surplus funds with any of the counterparty types in the table below, subject to the cash limits (per counterparty) and the time limits shown.

Credit Rating	Banks Unsecured	Banks Secured	Government
UK Govt	n/a	n/a	£Unlimited 50 years
AAA	£2m 5 years	£4m 20 years	£4m 50 years
AA+	£2m 5 years	£4m 10 years	£4m 25 years
AA	£2m 4 years	£4m 5 years	£4m 15 years
AA-	£2m 3 years	£4m 4 years	£4m 10 years
A+	£2m 2 years	£4m 3 years	£2m 5 years
A	£2m 13 months	£4m 2 years	£2m 5 years
A-	£2m 6 months	£4m 13 months	£2m 5 years
BBB+	£1m 100 days	£2m 6 months	£1m 2 years
None	£1m 6 months	n/a	£4m 25 years
Pooled Funds	£4m per fund		

14. Investment limits are set by reference to the lowest published **long-term credit rating** from a selection of external rating agencies. Where available, the credit rating relevant to the specific investment or class of investment is used, otherwise the counterparty credit rating is used. However, investment decisions are never made solely based on credit ratings, and all other relevant factors including external advice will be taken into account.
15. Summary of counterparty types:
- a) **Banks Unsecured:** Accounts, deposits, certificates of deposit and senior unsecured bonds with banks and building societies. These investments are subject to the risk of credit loss via a bail-in should the regulator determine that the bank is failing or likely to fail.
 - b) **Banks Secured:** Covered bonds, reverse repurchase agreements and other collateralised arrangements with banks and building societies. These investments are secured on the bank's assets, which limits the potential losses in the unlikely event of insolvency, and means that they are exempt from bail-in. The combined secured and unsecured investments in any one bank will not exceed the cash limit for secured investments.

- c) **Government:** Loans, bonds and bills issued or guaranteed by national governments, regional and local authorities and multilateral development banks. These investments are not subject to bail-in, and there is generally a lower risk of insolvency, although they are not zero risk. Investments with the UK Central Government may be made in unlimited amounts for up to 50 years.
- d) **Pooled Funds:** Shares or units in diversified investment vehicles consisting of any of the above investment types, plus equity shares and property. These funds have the advantage of providing wide diversification of investment risks, coupled with the services of a professional fund manager in return for a fee. Short-term **Money Market Funds** that offer same-day liquidity and very low or no volatility will be used as an alternative to instant access bank accounts, while pooled funds whose value changes with market prices and/or have a notice period will be used for longer investment periods.

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

16. The Council may also invest its surplus funds in corporates (loans, bonds and commercial paper issued by companies other than banks), registered providers (loans and bonds issued by, guaranteed by or secured on the assets of Registered Providers of Social Housing and registered social landlords, formerly known as Housing Associations) and real estate investment trusts, subject to meeting the minimum credit rating criteria and time limits recommended by the Council's treasury advisers.

Operational Bank Accounts

17. The Council may incur operational exposures, for example through current accounts, collection accounts and merchant acquiring services, to any UK bank with credit ratings no lower than BBB- and with assets greater than £25 billion. These are not classed as investments but are still subject to the risk of a bank bail-in, and balances will therefore be kept below £4m per bank. The Bank of England has stated that in the event of failure, banks with assets greater than £25 billion are more likely to be bailed-in than made insolvent, increasing the chance of the Council maintaining operational continuity.

Risk Assessment and Credit Ratings

18. Credit ratings are obtained and monitored by the Council's treasury advisers, who will notify changes in ratings as they occur. Where an entity has its credit rating downgraded so that it fails to meet the approved investment criteria then:
- no new investments will be made,
 - any existing investments that can be recalled or sold at no cost will be, and
 - full consideration will be given to the recall or sale of all other existing investments with the affected counterparty.

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

Other Information on the Security of Investments

20. The Council understands that credit ratings are good, but not perfect predictors of investment default. Full regard will therefore be given to other available information on the credit quality of the organisations, in which it invests, including credit default swap prices, financial statements, information on potential government support and reports in the quality financial press and analysis and advice from the Council treasury management adviser. No investments will be made with an organisation if there are substantive doubts about its credit quality, even though it may otherwise meet the above credit rating criteria.
21. The following **internal measures** are also in place:
- Investment and borrowing decisions formally recorded and endorsed using a Counterparty Decision Document.
 - Monthly officer reviews of the investment and borrowing portfolio and quarterly reviews with the Chief Executive Officer.

Investment Limits

22. The Council’s revenue reserves available to cover investment losses are forecast to be £13 million on 31st March 2020. In order to minimise risk, in the case of a single default, the maximum that will be lent to any one organisation (other than the UK Government) will be **£4 million**. A group of banks under the same ownership will be treated as a single organisation for limit purposes. Limits will also be placed on fund managers, investments in brokers’ nominee accounts, foreign countries and industry sectors as summarised in the table below. Investments in pooled funds and multilateral development banks do not count against the limit for any single foreign country, since the risk is diversified over many countries.

	Cash limit
Any single organisation, except the UK Central Government	£4m each
UK Central Government	unlimited
Any group of organisations under the same ownership	£4m per group
Any group of pooled funds under the same management	£10m per manager
Negotiable instruments held in a broker’s nominee account	£10m per broker
Foreign countries	£4m per country
Unsecured investments with Building Societies	£2m in total
Money Market Funds	£20m in total

Liquidity Management

23. The Council uses a purpose-built cash flow forecasting spreadsheet to determine the maximum period for which funds may prudently be committed. The forecast is compiled on a prudent basis to minimise the risk of the Council being forced to borrow on unfavourable terms to meet its financial commitments. Limits on long-term investments are set by reference to the Council’s medium-term financial plan and cash flow forecast.

BORROWING

Current Portfolio Position

24. The Council’s treasury position at 31 March 2019, with forward projections are summarised below.

£'000	2019/20 Revised	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate
Debt at 1 April	45,510	60,510	72,510	83,510
Expected change in debt	15,000	12,000	11,000	0
Gross Debt at 31 March	60,510	72,510	83,510	83,510

25. Debt at 31 March 2020 is projected to be lower than estimated last year due to the use of internal borrowing rather than borrowing externally to fund the capital programme.

Borrowing Strategy

26. The Council’s main objective when borrowing money is to strike an appropriately low risk balance between **securing low interest costs** and achieving **certainty of those costs** over the period for which funds are required. The flexibility to renegotiate loans should the Council’s long-term plans change is a secondary objective.

27. Given the significant cuts to public expenditure and in particular to local government funding, the Council’s borrowing strategy continues to address the key issue of affordability without compromising the longer-term stability of the debt portfolio.

28. With short-term interest rates currently much lower than long-term rates, it is likely to be more cost effective in the short term to either **use internal resources**, or to **borrow short-term** loans instead.

29. By doing so, the Council can reduce net borrowing costs (despite foregone investment income) and **reduce overall treasury risk**. The benefits of internal borrowing or short-term borrowing will be monitored regularly against the potential for incurring additional costs by deferring borrowing into future years when long-term borrowing rates are forecast to rise modestly.

30. Our treasury advisers will assist the Council with this **‘cost of carry’** and breakeven analysis. Its output may determine whether the Council borrows additional sums at long-term fixed rates in 2020/21 with a view to keeping future

interest costs low, even if this causes additional cost in the short-term.

31. The Council has previously raised all of its long-term borrowing from the PWLB but the government increased PWLB rates by 1% in October 2019 making it now a relatively expensive option. The Council will now look to borrow any long-term loans from other sources including banks, pensions and local authorities, and will investigate the possibility of issuing bonds and similar instruments, in order to lower interest costs and reduce over-reliance on one source of funding in line with the CIPFA Code.
32. Alternatively, the Council may arrange forward starting loans, where the interest rate is fixed in advance, but the cash is received in later years. This would enable certainty of cost to be achieved without suffering a cost of carry in the intervening period.
33. In addition, the Council may borrow further short-term loans to cover unexpected cash flow shortages.

Sources of Borrowing

34. The approved sources of long-term and short-term borrowing are:
 - Public Works Loan Board (PWLB) and any successor body.
 - Any institution approved for investments.
 - Any other bank or building society authorised to operate in the UK.
 - Any other UK public sector body.
 - UK public and private sector pension funds (except the Hampshire County Council Pension Fund).
 - Capital market bond investors.
 - UK Municipal Bonds Agency plc (see below) and other special purpose companies created to enable local authority bond issues.
35. In addition, capital finance may be raised by the following methods that are not borrowing, but may be classed as other debt liabilities:
 - Leasing
 - Hire purchase
 - Private Finance Initiative
 - Sale and leaseback
36. **Municipal Bonds Agency:** UK Municipal Bonds Agency plc was established in 2014 by the Local Government Association as an alternative to the PWLB. It plans to issue bonds on the capital markets and lend the proceeds to local authorities. This will be a more complicated source of finance than the PWLB for two reasons: borrowing authorities will be required to provide bond investors with a guarantee to refund their investment in the event that the agency is unable to for any reason; and there will be a lead time of several months between committing to borrow and knowing the interest rate payable. Any decision to borrow from the Agency will therefore be the subject of a separate report to full Council.

37. **Short-Term and Variable Rate Loans:** These loans leave the Council exposed to the risk of short-term interest rate rises and are therefore subject to the interest rate exposure limits in the treasury management indicators below.
38. **Debt Rescheduling:** The PWLB allows authorities to repay loans before maturity and either pay a premium or receive a discount according to a set formula based on current interest rates. The Council may take advantage of this and replace some loans with new loans, or repay loans without replacement, where this is expected to lead to an overall cost saving or a reduction in risk.
39. **Borrowing Limits:** These have been set as part of the Capital Strategy for 2020/21.

TREASURY MANAGEMENT INDICATORS

40. The Council measures and manages its exposures to treasury management risks using the following indicators.
41. **Principal sums invested for longer than a year:** 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 long-term principal sum invested to final maturities beyond the year end will be:

£M	2019/20 Revised	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate
Limit on principal invested beyond year end	15	15	15	15

42. The limit has increased from last year by £5 million to reflect the increase in investments in long term pooled funds.
43. **Maturity structure of borrowing:** This treasury indicator is set to control the Council's exposure to refinancing risk. The upper and lower limits on the maturity structure of borrowing will be:

Maturity structure of borrowing	Upper Limit	Lower Limit
	%	%
- Loans maturing within 1 year	50	0
- Loans maturing within 1 - 2 years	50	0
- Loans maturing within 2 - 5 years	50	0
- Loans maturing within 5 - 10 years	50	0
- Loans maturing in over 10 years	100	100

44. Time periods start on the first day of each financial year. The maturity date of borrowing is the earliest date on which the lender can demand repayment.
45. **Housing Revenue Account (HRA) ratios:** As a result of the HRA Reforms in 2012, the Council moved from a subsidy system to self-financing and was required to take on **£49.3 million** of debt. The table below shows additional local indicators relating to the HRA in respect of this debt.

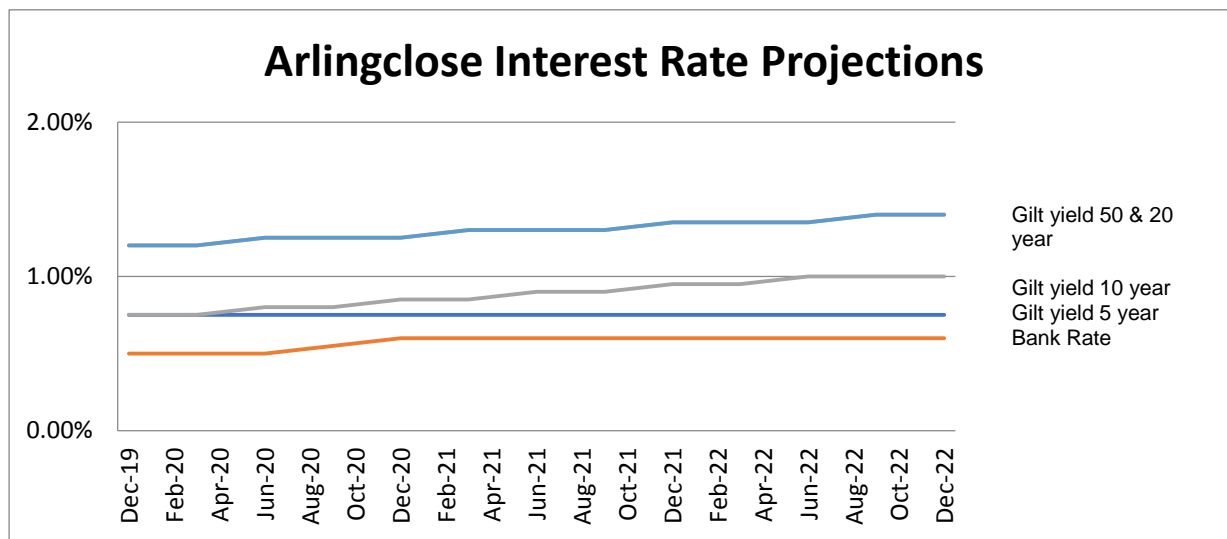
	2019/20 Revised	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate
HRA Debt £'000	49,268	49,268	49,268	49,268
HRA Revenues £'000	12,338	12,668	13,019	13,361
Number of HRA Dwellings	2,391	2,400	2,407	2,445
Ratio of Debt to Revenues %	3.99:1	3.89:1	3.78:1	3.69:1
Debt per Dwelling £	£20,606	£20,528	£20,469	£20,151
Debt Repayment Fund £'000	£3,420	£4,560	£5,700	£6,840

MINIMUM REVENUE PROVISION (MRP) POLICY STATEMENT

46. Where the Council finances capital expenditure by debt, it must **put aside resources to repay that debt** in later years. The amount charged to the revenue budget for the repayment of debt is known as **Minimum Revenue Provision (MRP)**.
47. The Council is required to set an annual policy on the way it calculates the prudent provision for the repayment of General Fund borrowing. The main policy adopted is that MRP will be determined by charging the expenditure over the **expected useful life** of the relevant assets on an **annuity basis** starting in the year after the asset becomes operational. This calculation will be reviewed on a case by case basis depending on the circumstances and with a view to minimising the impact on the council taxpayer.
48. Where expenditure is on an asset which will be held on a short-term basis (up to 5 years), no MRP will be charged. However, the capital receipt generated by the sale of the asset will be used to repay the debt instead.
49. No MRP will be charged in respect of assets held within the HRA, in accordance with MHCLG Guidance and capital expenditure incurred during 2019/20 will not be subject to an MRP charge until 2020/21.

INTEREST RATE FORECAST

50. The Council's treasury management advisers assist the Council to formulate a view on interest rates. The latest detailed economic and interest rate forecast provided by Arlingclose is attached at Annex 1.
51. The following graph and commentary gives the Arlingclose's central view on interest rates.



52. The Council's treasury management adviser Arlingclose is forecasting that Bank Rate will remain at 0.75% until the end of 2022. The risks to this forecast are deemed to be significantly weighted to the downside, particularly given the upcoming general election, the need for greater clarity on Brexit and the continuing global economic slowdown. The Bank of England, having previously indicated interest rates may need to rise if a Brexit agreement was reached, stated in its November Monetary Policy Report and its Bank Rate decision (7-2 vote to hold rates) that the MPC now believe this is less likely even in the event of a deal.
53. Gilt yields have risen but remain at low levels and only some very modest upward movement from current levels are expected based on Arlingclose's interest rate projections. The central case is for 10-year and 20-year gilt yields to rise to around 1.00% and 1.40% respectively over the time horizon, with broadly balanced risks to both the upside and downside. However, short-term volatility arising from both economic and political events over the period is a near certainty.

Other Items

54. The CIPFA Code requires the Council to include the following in its Treasury Management Strategy.
55. **Policy on Apportioning Interest to the HRA:** On 28 March 2012, the Council borrowed £40 million from the Public Works Loan Board (PWLB) to buy itself out of the HRA subsidy System. The monies were borrowed by the General Fund on behalf of the HRA. The interest on these loans is charged to the HRA on a half-yearly basis at the rate charged by PWLB. A further £9.268 million was lent by the General Fund to the HRA to complete the buyout. Interest on this element is charged at the average weighted rate of the PWLB loans.
56. The unfunded HRA capital financing requirement is also charged to the HRA at the average weighted rate of the PWLB loans.
57. The General Fund credits the HRA with interest earned on HRA credit balances calculated on the monthly movement in reserve balances and applied at year end. The rate used is the weighted interest rate on General Fund investments and cash balances.

58. **Markets in Financial Instruments Directive:** The Council has opted up to professional client status with its providers of financial services, including advisers, banks, brokers and fund managers, allowing it access to a greater range of services but without the greater regulatory protections afforded to individuals and small companies. Given the size and range of the Council's treasury management activities, the Chief Financial Officer believes this to be the most appropriate status.

Financial Implications

59. The budget for interest received in 2020/21 for the General Fund is £954,700 and the HRA is £114,000 and the budget for debt interest paid in 2020/21 is £259,000 for the General Fund and £1,794,900 for the HRA. If actual levels of investments and borrowing, and actual interest rates differ from those forecast, performance against budget will be correspondingly different.

Other Options Considered

60. The CIPFA Code does not prescribe any particular treasury management strategy for local authorities to adopt. The Chief Financial Officer, believes that the above strategy represents an appropriate balance between risk management and cost effectiveness. Some alternative strategies, with their financial and risk management implications, are listed below.

Alternative	Impact on income and expenditure	Impact on risk management
Invest in a narrower range of counterparties and/or for shorter times	Interest income will be lower	Lower chance of losses from credit related defaults, but any such losses may be greater
Invest in a wider range of counterparties and/or for longer times	Interest income will be higher	Increased risk of losses from credit related defaults, but any such losses may be smaller
Borrow additional sums at long-term fixed interest rates	Debt interest costs will rise; this is unlikely to be offset by higher investment income	Higher investment balance leading to a higher impact in the event of a default; however long-term interest costs may be more certain
Borrow short-term or variable loans instead of long-term fixed rates	Debt interest costs will initially be lower	Increases in debt interest costs will be broadly offset by rising investment income in the medium term, but long-term costs may be less certain
Reduce level of borrowing	Saving on debt interest is likely to exceed lost investment income	Reduced investment balance leading to a lower impact in the event of a default; however long-term interest costs may be less certain

INVESTMENT STRATEGY

61. The Council invests its money for three broad purposes:

- because it has surplus cash as a result of its day-to-day activities, for

example when income is received in advance of expenditure (known as **treasury management investments**),

- to support local public services by lending to or buying shares in other organisations (**service investments**), and
- to earn investment income (known as **commercial investments** where this is the main purpose).

62. This investment strategy meets the requirements of statutory guidance issued by the Government in January 2018 and focuses on the third of these categories.

63. The Council does not currently have any service investments.

COMMERCIAL INVESTMENTS

64. The Council invests in local and some regional UK commercial property with the intention of making a profit that will be spent on local public services.

65. Since the Executive approval of a Commercial Property Investment Acquisition Strategy in January 2013, the Council has purchased commercial investment properties currently valued at **£39.6 million**, as summarised below, averaging a return of **6.9%**.

Property Type	Purchase Cost £'000	Current Value £'000
Retail	28,515	26,850
Commercial	10,121	10,650
Other	1,890	2,050
Total	40,526	39,550

66. The Council's total Commercial property portfolio, shown below, is valued at **£69.9 million** and includes Fareham Shopping Centre, Faretec and industrial estates at Palmerston Business Park and Newgate Lane.

Property Type	Current Value £'000
Retail	42,162
Commercial	18,411
Other	4,373
Office	3,759
Leisure	1,167
Total	69,872

67. In accordance with government guidance, the Council considers a property investment to be secure if its accounting valuation is at or higher than its purchase cost including taxes and transaction costs.

68. A fair value assessment of the Council's more recent commercial property purchases has been made within the past twelve months, and the underlying assets provide security for capital investment. Should the 2019/20 year-end

accounts preparation and audit process value these properties below their purchase cost, then an updated investment strategy will be presented to full Council detailing the impact of the loss on the security of investments and any revenue consequences arising therefrom.

69. The Council assesses the risk of loss before entering into and whilst holding property investments. These risks are managed by ensuring:
- funds available for new purchases are disaggregated to limit the overall impact that any single investment would have on the Council's finances;
 - new purchases are only considered with existing tenants of "high quality" and sufficiently long tenancy term;
 - appropriate checks are carried out to ascertain the tenant's reliability;
 - other "due diligence" is undertaken to protect the Councils investment as far as possible such as checks on planning conditions, land contamination issues and planning policy issues.

Proportionality

70. The Council is dependent on profit generating investment activity to achieve a balanced revenue budget. The table below shows the extent to which the expenditure planned to meet the service delivery objectives is dependent on achieving the expected net profit from investments over the lifecycle of the Medium-Term Financial Strategy.

£'000	2018/19 Actual	2019/20 Forecast	2020/21 Budget	2021/22 Budget	2022/23 Budget
Gross service expenditure	44,754	47,851	48,342	48,975	49,174
Investment income	3,988	4,266	4,576	4,576	4,576
Proportion	8.9%	8.9%	9.5%	9.3%	9.3%

INVESTMENT INDICATORS

71. The Council has set the following quantitative indicators to assess the Council's total risk exposure as a result of its investment decisions.
72. **Total risk exposure:** The first indicator shows the Council's total exposure to potential investment losses.

Total Investment Exposure	2018/19 Actual £'000	2019/20 Forecast £'000	2020/21 Forecast £'000
Treasury Management Investments	13,100	12,000	12,000
Commercial Investments	56,662	69,872	69,872
Total	69,762	81,872	81,872

73. **How investments are funded:** Government guidance is that these indicators should include how investments are funded. Since the Council does not normally associate particular assets with particular liabilities, this guidance is difficult to comply with. However, the following investments could be described as being funded by borrowing. The remainder of the Council's investments are funded by usable reserves and income received in advance of expenditure.

Investments Funded by Borrowing	2018/19 Actual £'000	2019/20 Forecast £'000	2020/21 Forecast £'000
Treasury Management Investments	0	0	0
Commercial Investments	18,412	31,997	31,242
Total	18,412	31,997	31,242

74. **Rate of return received:** This indicator shows the investment income received less the associated costs, including the cost of borrowing where appropriate, as a proportion of the sum initially invested.

Investments Net Rate of Return	2018/19 Actual	2019/20 Forecast	2020/21 Forecast
Treasury Management Investments	2.8%	3.4%	4.6%
Commercial Investments	6.1%	5.3%	6.2%
Total	5.4%	5.0%	5.9%

CAPACITY AND SKILLS

Training

75. The CIPFA Code requires the responsible officer to ensure that members with responsibility for treasury management receive adequate training in treasury management. This especially applies to members responsible for scrutiny.
76. Treasury management officers regularly attend training courses, seminars and conferences provided by the Council's treasury management advisers and CIPFA.
77. Property services officers also regularly attend training courses, seminars and conferences provided RICS (Royal Institution of Chartered Surveyors) accredited/approved providers.

Use of Treasury Management Consultants

78. The Council has appointed Arlingclose as treasury management advisers and receives specific advice on investment, debt and capital finance issues.
79. The Council recognises that responsibility for treasury management decisions remains with the organisation at all times and will ensure that undue reliance is not placed upon our external service providers.
80. It also recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources. The Council will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented and subjected to regular review.

ARLINCLOSE ECONOMIC AND INTEREST RATE FORECAST DECEMBER 2019

Economic Background

The UK's progress negotiating its exit from the European Union, together with its future trading arrangements, will continue to be a major influence on the Authority's treasury management strategy for 2020/21. The General Election has removed some uncertainty within the market, however following the expected Withdrawal Bill, uncertainties around the future trading relationship with the EU remain.

GDP growth rose by 0.4% in the third quarter of 2019 from -0.2% in the previous three months with the annual rate falling further below its trend rate to 1.1% from 1.2%. Services, construction and production added positively to growth, by 0.5%, 1.2% and 0.1% respectively, while agriculture recorded a fall of 0.1%. Looking ahead, the Bank of England's Monetary Policy Report (formerly the Quarterly Inflation Report) forecasts economic growth to pick up during 2020 as Brexit-related uncertainties dissipate and provide a boost to business investment helping GDP reach 1.6% in Q4 2020, 1.8% in Q4 2021 and 2.1% in Q4 2022.

The headline rate of UK Consumer Price Inflation remained the same in November 2019 at 1.5% year-on-year, the same as October 2019, however continuing to fall from highs of 2.1% in July and April 2019 as accommodation services and transport continued to contribute to a level of inflation below the BOE target of 2%. Labour market data continues to be positive. The ILO unemployment rate continues to hold at historic lows at 3.8%, its lowest level since 1975. The 3-month average annual growth rate for pay excluding bonuses rose to 3.5% in November 2019 providing some evidence that a shortage of labour is supporting wages. However, adjusting for inflation this means real wages were only up by 0.9% in October 2019 and only likely to have a moderate impact on household spending.

Domestic inflationary pressures have abated, as domestic gas and electricity price freezes have taken effect until 2020. The price of oil has fallen through the year, despite a rise in prices in December 2019. The limited inflationary pressure from real wages will likely keep inflation below the Bank of England target of 2%. The Bank of England maintained Bank Rate to 0.75% in November following a 7-2 vote by the Monetary Policy Committee. Despite keeping rates on hold, MPC members did confirm that if Brexit uncertainty drags on or global growth fails to recover, they are prepared to cut interest rates as required. Moreover, the downward revisions to some of the growth projections in the Monetary Policy Report suggest the Committee may now be less convinced of the need to increase rates even if there is a Brexit deal.

The US economy has continued to perform relatively well compared to other developed nations; however, the Federal Reserve has started to unwind its monetary tightening through 2019. The Federal Reserve has cut rates three times to 1.5% - 1.75%, to stimulate growth as GDP growth has started to fall (to 2.1%).

The fallout from the US-China trade war continues which, risks contributing to a slowdown in global economic activity in 2019. Recent suggestions have been an initial compromise and potential unwinding of tariffs; however, this can change quickly. Slow growth in Europe, combined with changes in leadership at the ECB and

IMF has led to a change of stance in 2019. Quantitative easing has continued and been extended.

Credit Outlook

The recent Bank of England stress tests assessed all seven UK banking groups. The tests scenarios include deep simultaneous recessions in the UK and global economies that are more severe overall than the global financial crisis, combined with large falls in asset prices and a separate stress of misconduct costs. All seven banks passed the test on both a CET1 ratio and a leverage ratio basis. Major banks have steadily increased their capital for many years now. However, there are a number of shortcomings in the Bank's approach; timeliness as the results are over 11 months of out date when they are published, being based on end-2018 balance sheets; ringfencing, as the tests ignore the restrictions on transferring capital between ringfenced "retail" banks and non-ringfenced "investment" banks within the larger groups and; coverage – the tests should be expanded to cover a wider range of UK banks and building societies

The Bank of England will seek to address some of these issues in 2020, when Virgin Money/Clydesdale will be added to the testing group and separate tests will be included of ringfenced banks

Challenger banks hit the news headlines in 2019 with Metro Bank and TSB Bank both suffering adverse publicity and falling customer numbers

Looking forward, the potential for a "no-deal" Brexit and/or a global recession remain the major risks facing banks and building societies in 2020/21 and a cautious approach to bank deposits remains advisable

Underlying assumptions

- The global economy is entering a period of slower growth in response to political issues, primarily the trade policy stance of the US. The UK economy has displayed a marked slowdown in growth due to both Brexit uncertainty and the downturn in global activity. In response, global and UK interest rate expectations have eased.
- Some positivity on the trade negotiations between China and the US has prompted worst case economic scenarios to be pared back. However, information is limited, and upbeat expectations have been wrong before.
- Brexit has been delayed until 31 January 2020. While the General Election has maintained economic and political uncertainty, the opinion polls suggest the Conservative position in parliament may be strengthened, which reduces the chance of Brexit being further frustrated. A key concern is the limited transitional period following a January 2020 exit date, which will maintain and create additional uncertainty over the next few years.
- UK economic growth has stalled despite Q3 2019 GDP of 0.3%. Monthly figures indicate growth waned as the quarter progressed and survey data

suggest falling household and business confidence. Both main political parties have promised substantial fiscal easing, which should help support growth.

- While the potential for divergent paths for UK monetary policy remain in the event of the General Election result, the weaker external environment severely limits potential upside movement in Bank Rate, while the slowing UK economy will place pressure on the MPC to loosen monetary policy. Indeed, two MPC members voted for an immediate cut in November 2019.
- Inflation is running below target at 1.7%. While the tight labour market risks medium-term domestically-driven inflationary pressure, slower global growth should reduce the prospect of externally driven pressure, although political turmoil could push up oil prices.
- Central bank actions and geopolitical risks will continue to produce significant volatility in financial markets, including bond markets.

Forecast

- Although we have maintained our Bank Rate forecast at 0.75% for the foreseeable future, there are substantial risks to this forecast, dependant on General Election outcomes and the evolution of the global economy.
- Arlingclose judges that the risks are weighted to the downside.
- Gilt yields have risen but remain low due to the soft UK and global economic outlooks. US monetary policy and UK government spending will be key influences alongside UK monetary policy.
- We expect gilt yields to remain at relatively low levels for the foreseeable future and judge the risks to be broadly balanced.

ECONOMIC COMMENTARY BY TREASURY ADVISORS ARLINGCLOSE – OCTOBER 2020

Economic Background: The spread of the coronavirus pandemic dominated during the period as countries around the world tried to manage the delicate balancing act of containing transmission of the virus while easing lockdown measures and getting their populations and economies working again. After a relatively quiet few months of Brexit news it was back in the headlines towards the end of the period as agreement between the UK and EU on a trade deal was looking difficult and the government came under fire, both at home and abroad, as it tried to pass the Internal Market Bill which could override the agreed Brexit deal, potentially breaking international law.

The Bank of England (BoE) maintained Bank Rate at 0.1% and its Quantitative Easing programme at £745 billion. The potential use of negative interest rates was not ruled in or out by BoE policymakers, but then a comment in the September Monetary Policy Committee meeting minutes that the central bank was having a harder look at its potential impact than was previously suggested took financial markets by surprise.

Government initiatives continued to support the economy, with the furlough (Coronavirus Job Retention) scheme keeping almost 10 million workers in jobs, grants and loans to businesses and 100 million discounted meals being claimed during the 'Eat Out to Help Out' (EOHO) offer.

GDP growth contracted by a massive 19.8% (revised from first estimate -20.4%) in Q2 2020 (Apr-Jun) according to the Office for National Statistics, pushing the annual growth rate down to -21.5% (first estimate -21.7%). Construction output fell by 35% over the quarter, services output by almost 20% and production by 16%. Recent monthly estimates of GDP have shown growth recovering, with the latest rise of almost 7% in July, but even with the two previous monthly gains this still only makes up half of the lost output.

The headline rate of UK Consumer Price Inflation (CPI) fell to 0.2% year/year in August, further below the Bank of England's 2% target, with the largest downward contribution coming from restaurants and hotels influenced by the EOHO scheme. The Office for National Statistics' preferred measure of CPIH which includes owner-occupied housing was 0.5% y/y.

In the three months to July, labour market data showed the unemployment rate increased from 3.9% to 4.1% while wages fell 1% for total pay in nominal terms (0.2% regular pay) and was down 1.8% in real terms (-0.7% regular pay). Despite only a modest rise in unemployment over the period, the rate is expected to pick up sharply in the coming months as the furlough scheme ends in October. On the back of this, the BoE has forecast unemployment could hit a peak of between 8% and 9%.

The US economy contracted at an annualised rate of 31.7% in Q2 2020 (Apr-Jun). The Federal Reserve maintained the Fed Funds rate at between 0% and 0.25% but announced a change to its inflation targeting regime. The move is to a more flexible form of average targeting which will allow the central bank to maintain interest rates at low levels for an extended period to support the economy even when inflation is 'moderately' above the 2% average target, particularly given it has been below target for most of the last decade.

The European Central Bank maintained its base rate at 0% and deposit rate at -0.5%.

Financial Markets: Equity markets continued their recovery, with the Dow Jones climbing to not far off its pre-crisis peak, albeit that performance being driven by a handful of technology stocks including Apple and Microsoft, with the former up 75% in 2020. The FTSE 100 and 250 have made up around half of their losses at the height of the pandemic in March. Central bank and government stimulus packages continue to support asset prices, but volatility remains.

Ultra-low interest rates and the flight to quality continued, keeping gilts yields low but volatile over the period with the yield on some short-dated UK government bonds remaining negative. The 5-year UK benchmark gilt yield started and ended the June–September period at -0.06% (with much volatility in between). The 10-year gilt yield also bounced around, starting at 0.21% and ending at 0.23% over the same period, while the 20-year rose from 0.56% to 0.74%. 1-month, 3-month and 12-month bid rates averaged 0.02%, 0.06% and 0.23% respectively over the period.

At the end of September, the yield on 2-year US treasuries was around 0.13% while that on 10-year treasuries was 0.69%. German bund yields remain negative across most maturities.

Credit Review: Credit default swap spreads eased over most of the period but then started to tick up again through September. In the UK, the spreads between ringfenced and non-ringfenced entities remains, except for retail bank Santander UK whose CDS spread remained elevated and the highest of those we monitor at 85bps while Standard Chartered was the lowest at 41bps. The ringfenced banks are currently trading between 45 and 50bps.

After a busy second quarter of the calendar year, the subsequent period has been relatively quiet for credit changes for the names on our counterparty list. Fitch assigned an AA- deposit rating to Netherlands lender Rabobank with a negative outlook and prior to that, while not related to our counterparty list but quite significant, revised the outlook on the US economy to Negative from Stable while also affirming its AAA rating.

There continues to remain much uncertainty around the extent of the losses banks and building societies will suffer due to the impact from the coronavirus pandemic and for the UK institutions on our list there is the added complication of the end of the Brexit transition period on 31st December and what a trade deal may or may not

look like. The institutions on Arlingclose's counterparty list and recommended duration remain under constant review, but at the end of the period no changes had been made to the names on the list or the recommended maximum duration of 35 days.

2020/21 INDICATORS – HALF YEARLY PERFORMANCE

PRUDENTIAL INDICATORS

1) Level of Planned Capital Expenditure

ON TRACK

This prudential indicator is a summary of the Council's capital expenditure plans and shows how these plans are being financed by capital or revenue resources.

Capital Expenditure and Financing	Revised Estimate £'000	Actual to 30 Sept £'000
Streetscene	30	0
Leisure and Community	6,097	169
Housing	500	64
Planning Development	230	0
Policy and Resources	5,130	799
Total General Fund	11,987	1,032
HRA	6,662	2,868
Total Expenditure	18,649	3,900
Capital Receipts	555	37
Capital Grants/Contributions	3,680	376
Capital Reserves	5,464	1,541
Revenue	2,034	1,872
Internal Borrowing	6,916	74
Total Financing	18,649	3,900

Expenditure to 30 September is within the overall revised budget for the year. The budgets will be reviewed and re-phased where applicable as part of the forthcoming budget setting process.

2) The Council's Borrowing Need (Capital Financing Requirement)

ON TRACK

The Capital Financing Requirement (CFR) is the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Council's underlying borrowing need. Any capital expenditure financed by borrowing will increase the CFR.

The CFR does not increase indefinitely, as the minimum revenue provision (MRP) is a statutory annual revenue charge which broadly reduces the borrowing in line with the asset's life.

	Estimate £'000	Actual to 30 Sept £'000
General Fund	63,440	52,649
HRA	51,141	51,141
Total CFR	114,581	103,790

The CFR is slightly lower than projected due to lower internal borrowing for Daedalus capital expenditure.

3) Financing Costs as % of Net Revenue Stream

ON TRACK

This is an indicator of affordability and highlights the revenue implications of existing and proposed capital expenditure by identifying the proportion of the revenue budget required to meet financing costs, net of investment income.

	Estimate	Actual to 30 Sept
General Fund	6%	5%
HRA	13%	14%

4) Housing Revenue Account (HRA) Ratios

ON TRACK

Due to the HRA Reforms in 2012, the Council moved from a subsidy system to self-financing and was required to take on £49.3 million of debt. The table below shows additional local indicators relating to the HRA in respect of this debt.

	Estimate	End of Year Forecast
HRA debt £'000	49,268	49,268
HRA revenues £'000	12,668	12,142
Number of HRA dwellings	2,400	2,402
Ratio of debt to revenues %	3.89	4.06
Debt per dwelling £	20,528	20,509
Debt repayment fund £'000	4,560	4,560

TREASURY INDICATORS

5) Investments - Principal Sums Invested for Periods Longer than a year

ON TRACK

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.

£M	Estimate	Actual
Limit on principal invested beyond year end	15	11

£12 million is placed with externally managed strategic pooled diversified income funds which are long-term investments. The remaining investments are currently placed for less than a year to allow cash to be available for schemes in the capital programme that require internal borrowing.

6) Borrowing - Gross Debt and the Capital Financing Requirement

ON TRACK

Statutory guidance is that debt should remain below the capital financing requirement, except in the short-term. The indicator shows that total debt is expected to remain below the CFR.

£'000	Estimate £'000	Actual to 30 Sept £'000
Debt at 1 April	72,510	52,967
Capital Financing Requirement (CFR)	114,581	103,790

7) Borrowing - Limits to Borrowing Activity

ON TRACK

The actual debt levels are monitored against the Operational Boundary and Authorised Limit for External Debt, below.

£'000	Limit	Actual to 30 Sept
Operational Boundary	114,000	52,967
Authorised Limit	122,000	52,967

Total debt at 30 September was £53 million. During the first half of 2020/21 the Authorised Limit of £122 million was not breached at any time.

8) Interest Rate Exposures

ON TRACK

This indicator is set to control the Council's exposure to interest rate risk. The upper limits on fixed and variable rate interest rate exposures, expressed as the proportion of net principal borrowed are, shown in the table below.

Upper limits on interest rate exposures	Limit %	Actual %
Upper limit on variable interest rate exposures	25	24
Upper limit on fixed interest rate exposures	100	76

9) Maturity Structure of Borrowing

ON TRACK

This indicator is set to control the Council's exposure to refinancing risk. The upper and lower limits on the maturity structure of fixed rate borrowing are:

Maturity structure of borrowing	Upper Limit %	Actual %
Loans maturing within 1 year	50	24
Loans maturing within 1 - 2 years	50	0
Loans maturing within 2 - 5 years	50	0
Loans maturing within 5 - 10 years	50	0
Loans maturing in over 10 years	100	76

The £40m HRA loans represent 76% of loans maturing in over 10 years. The Council holds investments from Portchester Crematorium which is treated as a temporary loan and £10 million short-term loan. These represent 24% of loans maturing within 1 year.

10) Commercial Investments - Proportionality

ON TRACK

The Council is dependent on profit generating investment activity to achieve a balanced revenue budget. The table below shows the extent to which the expenditure planned to meet the service delivery objectives is dependent on achieving the expected net profit from investments over the lifecycle of the Medium-Term Financial Strategy.

£'000	2020/21 Budget	Actual to 30 Sept
Gross service expenditure	48,324	17,072
Investment income	4,576	2,613
Proportion	9.5%	15.3%

11) Total Risk Exposure

ON TRACK

This indicator shows the Council's total exposure to potential investment losses.

Total Investment Exposure	2020/21 Forecast £'000	Actual to 30 Sept £'000
Treasury Management Investments	12,000	18,255
Commercial Investments	69,872	64,254
Total	81,872	82,509

12) How Investments are Funded

Government guidance is that these indicators should include how investments are funded. Since the Council does not normally associate particular assets with particular liabilities, this guidance is difficult to comply with. However, the following investments could be described as being funded by borrowing. The remainder of the Council's investments are funded by usable reserves and income received in advance of expenditure.

Investments funded by borrowing	2020/21 Forecast £'000	Actual to 30 Sept £'000
Treasury Management Investments	0	0
Commercial Investments	31,242	31,042
Total	31,242	31,042

FAREHAM

BOROUGH COUNCIL

Report to Audit and Governance Committee

Date: 23 November 2020
Report of: Monitoring Officer
Subject: ANNUAL CONSTITUTION REVIEW

SUMMARY

This report sets out the annual review of the Council's Constitution. The report highlights the amendments required to the Council's Constitution that have taken place through the Council's decision making process.

Appendix A to this report sets out all the amendments that have been made to the Constitution since this report was last brought the Audit and Governance Committee on the 25 November 2019.

*The Audit and Governance Committee's areas of responsibility for reviewing the Constitution are: -
The Audit and Governance Committee is responsible for reviewing and making recommendations to Council on its Constitution including Financial Regulations and Procurement and Contract Rules.*

RECOMMENDATION

It is RECOMMENDED that the Committee notes the contents of the report.

INTRODUCTION

1. The purpose of this report is to capture all the work over the last 12 months to keep the Constitution document up to date and fit for purpose, as well as documenting all the changes made as part of the Council's decision-making process.
2. Appendix A to this report lists all decisions made by Council that have subsequently resulted in changes to the Council's Constitution.

BACKGROUND

3. In 2017 Democratic Services Offices undertook a piece of work to update the Council's Constitution. This included reviewing the entire document to identify sections that required updating and revising to ensure it remains fit for purpose and relevant. This is still on going and will remain a regular piece of work for the Democratic Services Team.

CORONAVIRUS IMPACT

4. As with the majority of Council services, the Coronavirus pandemic has impacted on both the Constitution itself and the work carried out to review it. On the 19 March 2020 all work to review the Constitution was suspended to allow Officers within Democratic Services to focus resources in order to roll out virtual Committee meetings.
5. The Coronavirus Act 2020 allowed delegation to the Chief Executive Officers to suspend the Constitution to allow the delivery of Council functions whilst adhering to the Governments guidelines.
6. The only section of the Constitution that has been temporarily amended is the Deputation Scheme for Planning Committee. The planning system has continued throughout the pandemic nationally, following advice received from the Chief Planning Officer at the Ministry of Housing, Communities and Local Government in March. The decision was made to temporarily amend this section to allow this important part of the planning process to continue. This will be kept under review and has been included in Appendix A for transparency.
7. The intention was that at least one section of the Constitution would be reviewed and updated every year, but unfortunately this year, due to the coronavirus pandemic a review of this kind has not been possible. In table 1 below there is a list of the work that remains ongoing. It is hoped these sections will be reviewed over the coming year and brought to this Committee at next year's annual review of the Constitution in November 2021.
8. Officers reported last year that work was underway to create links and shortcuts to allow users to move through the document with ease. Although some progress has been made, there is still some work to do in order to complete this.

CHANGES TO THE CONSTIUTION

9. The Monitoring Officer has delegated authority to update the Constitution arising from decisions of the Council, Executive or where legislation requires a change in wording, terminology or reference.
10. Minor formatting, clerical or administrative changes are carried out by Democratic Services Officers with the approval of the Monitoring Officer. These types of changes

are rare, examples include; spelling mistakes, errors with paragraph numbering and grammatical errors.

11. Members are required to note that the changes in Appendix A have been made in accordance with the decision-making process. Democratic Services Officers make these changes as required and the Constitution log is updated accordingly.

THE NEXT TWELVE MONTHS

12. During the next twelve months work will continue to maintain the Constitution document and the associated webpages. Sections of the document for review will be identified by the Head of Democratic Services and agreed by the Monitoring Officer with any identified amendments being brought to the Audit and Governance Committee in autumn 2021.
13. The table below lists the areas that have been identified by the Head of Democratic Services as requiring review and details the progress made –

Table 1			
Section of the Constitution	Topic	Details	Progress
Various	Budget Approval Process	Clarity is required on the wording within the Constitution to provide transparency for the approval process for the Council's budget.	The sections that need reviewing have been identified. The next stage will be to meet with the Finance and Legal teams.
Various	Urgent Decisions	A change to the wording within the Constitution in order to provide clarity on the definition to identify an urgent decision and the process thereafter.	The Sections have been identified which require review and a change in wording has been drafted for some of these sections.
Part 4 – Standing Orders with Respect to Meetings	Petition Scheme	A paragraph is to be added to clarify that Council cannot ask the Executive to override a decision following the submission of a petition.	The paragraph has been drafted by officers.

14. All of the items listed above in table 1 will be carried out in consultation with both the Monitoring Officer and the Legal partnership team.

CONCLUSION

15. It is RECOMMENDED that the Committee notes the contents of the report.

Appendices: - Appendix A - Decisions made since November 2018 which have required amendments to be made to the Council's Constitution.

Background Papers: NONE

Reference Papers: The Constitution

Enquiries:

For further information on this report please contact Leigh Usher. (Ext: 4553)

Decisions made, since November 2019 which have required amendments to be made to the Council’s Constitution. Including decisions made under emergency powers that required

Section of the Constitution that required amending	Date amendment agreed at Council	Report title	Minute text
<ul style="list-style-type: none"> • Part Four – Standing Orders with Respect to Meetings. • Part Four – Delegation to Officers • Part Five • Part Three – Chapter 12 – Deputation Scheme. 	05 December 2019	Annual Review of Constitution	RESOLVED that the Council approves: - <ul style="list-style-type: none"> (a) the amendments to the Standing Orders with Respect to Meetings, as set out in Appendix B to the report; (b) the amendments to the Scheme of Delegation to Officers as set out in Appendix C to the report, to include the amended wording to be inserted into paragraph 2.17 that once the 12 planning applications had been dealt with, the delegation in the Constitution be removed; (c) the addition of the Anti-Bribery Policy in Part 5 of the Constitution; and (d) the deletion of the Part 3 – Chapter 12 – Deputation Scheme.

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Decisions made under emergency powers that required amendments or updates to be made to the Council’s Constitution.

Section of the Constitution that required amending	Date amendment agreed	Reason
Part Four – Standing Orders with Respect to Meetings – Appendix B - Planning Deputation Scheme	May 2020	To provide guidance allowing deputations to be heard at Virtual Planning Committee Meetings

FAREHAM

BOROUGH COUNCIL

Report to Audit and Governance Committee

Date: 23 November 2020

Report of: Head of Finance and Audit

Subject: INTERNAL AUDIT PROGRESS REPORT

SUMMARY

This report provides the assurances arising from the latest internal audit work and gives an update on the progress being made with delivering the audit plans.

The Audit and Governance Committee's areas of responsibility for Internal Audit include: -

- a) to approve significant interim changes to the internal audit plan and resource requirements;*
- b) to make appropriate enquiries of both management and the head of internal audit to determine if there are any inappropriate scope or resource limitations;*
- c) to consider reports from the head of internal audit on internal audit's performance, including the performance of external providers of internal audit services. These will include:*
 - updates on the work of internal audit including key findings, issues of concern and action in hand as a result of internal audit work.*
- d) to receive reports outlining the action taken where the head of internal audit has concluded that management has accepted a level of risk that may be unacceptable to the authority or there are concerns about progress with the implementation of agreed actions.*

RECOMMENDATION

It is RECOMMENDED that the Audit and Governance Committee notes the progress and findings arising from Internal Audit work.

INTRODUCTION

1. This report highlights the progress made to date on the delivery of the Internal Audit Plans and the assurances that can be obtained from the work now completed.

PROGRESS OF 2020/21 AUDIT PLAN

2. There has been one change to the 2020/21 plan in that we have now had confirmation that no certification work is required for the Disabled Facilities Grants this year so this audit can be removed from the plan. We are therefore planning to deliver one of the reserve audits instead.
3. Work has commenced on 18 of the 19 remaining audits in the current internal audit plan, as noted in Appendix Two, such that 7 of the audits are at Stage 4 (the auditor has started to deliver the agreed scope of work) and 5 are at Stage 5 (A first draft of the report has been received by the Support Officer to be reviewed).

FINALISING PREVIOUS AUDIT PLANS

4. The 9 remaining audits from the previous Audit Plans are detailed in Appendix One. Considerable work has been carried out to progress 2 audits (Risk Inspections and Recording of Sickness through HR 21) which should have reached the final stage by the date of the meeting.

FINDINGS FROM COMPLETED AUDITS

5. There are no additional final reports that have been issued since the last report.:

RISK ASSESSMENT

6. There are no significant risk considerations in relation to this report

Appendices:

Appendix One - Update on Outstanding Audits from Previous Plans

Appendix Two - Audits in the 2020/21 Plan

Appendix Three – Findings from the Latest Completed Audits (None)

Appendix Four - Reference Tables

Background Papers: None

Reference Papers:

Report by the Director of Finance and Resources to the Audit and Governance Committee on 10 March 2014 on the Contractor Annual Audit Plan 2014/15

Report by the Head of Finance and Audit to the Audit and Governance Committee on 14 March 2016 on the Internal Audit Plan 2016/17

Report by the Head of Finance and Audit to the Audit and Governance Committee on 17 March 2017 on the Internal Audit Plan 2017/18

Report by the Head of Finance and Audit to the Audit and Governance Committee on 18 March 2018 on the Internal Audit Plan 2018/19

Report by the Head of Finance and Audit to the Audit and Governance Committee on 11 March 2019 on the Internal Audit Plan 2019/20

Report by the Head of Finance and Audit to the Audit and Governance Committee on 19 October 2020 on the Internal Audit Plan 2020/21

Enquiries:

For further information on this report please contact Elaine Hammell (Ext. 4344)

APPENDIX ONE

Update on Outstanding Audits from Previous Plans

The following table shows those audits that were outstanding in the last quarterly report and shows the current position with finalising the work.

Audit Title	Stage reached of 10*	Original Days in Plan	Proposals to Conclude this work
2014/15			
Information Governance Opinion (Wider piece of work)	5	-	Audit relying on completion of other Audit Work – Targeted for July 2021 This audit will be able to be closed down once the review of all outstanding audit recommendations is commenced and the extract relating to ICT audit recommendations can be produced to feed into the final summary. As this will now be delayed until the 2021/22 plan it is unlikely that we can complete this report until next July.
2016/17			
Daedalus Operating Contracts (Opinion audit)	5	12	Proposed Audit for 2020/21 to supersede this audit The draft audit report in 2016/17 generally gave strong assurance in relation to these contracts, although there were a few minor areas of testing that needed finalising and feeding into the report. Some of these have since been picked up by the finance team. In the meantime, the nature of the operations at Daedalus have been expanded, and there have been changes in the FBC officers involved in estate management and financial support. A new audit has been included in the 2020/21 audit plan which will allow this audit to be closed. The work on this audit is in progress.
Building Health and Safety Risks (Wider piece of work)	5	-	Audit Targeted for Completion using Apprentice Resources – November - delayed The draft audit report in 2016/17 generally gave strong assurance in relation to the management of these risks, although there were a few minor areas of testing that needed finalising and feeding into the report. It therefore proposed that the additional apprentice resources will be used to refresh the testing and fill in the gaps. However, it has not yet been possible to start this work which will now need to slip to the March Committee.
2017/18			
Commercial Estates (Opinion audit)	8	15	Audit Targeted for Completion – March 2021 The draft audit report in 2017/18 generally gave reasonable assurance in relation to the management of these risks, although there were a few minor areas of testing that needed finalising and feeding into the report, and some inaccuracies needed correcting. In the meantime, some of the issues have been addressed by the Finance Service. It is therefore proposed that a revised draft report is still produced and discussed with the new manager of the service to allow the report to be finalised by the March Committee.
Risk Inspections of Public Areas (Wider piece of work)	4	-	Audit Targeted for Completion – November – still in progress This is a large collaborative piece of work involving the insurance and audit teams which will culminate in a presentation to senior managers. A considerable amount of work has been carried out this year, including in recent months, to bring this work to conclusion and the resulting report and presentation are nearly completed. The team has now refreshed

Audit Title	Stage reached of 10*	Original Days in Plan	Proposals to Conclude this work
			the analysis to bring it up to date and have booked a meeting in November to report back on their findings and finalise this audit.
2018/19			
Write Offs History Analysis & Interest charges (Wider piece of work)	5	-	Audit Targeted for Completion - March 2021 A considerable amount of work has been carried out on this audit which was fed into the changes proposed to Financial Regulations at the September Committee. There are some parts of the analysis that need completing, which are being progressed, and all the findings discussed at a manager's workshop before this work can be finalised.
Housing Options Debtors (Wider piece of work)	8	-	Audit Targeted for Completion – November - delayed This second draft of this report has now been produced and is just waiting review and discussion with the service to allow the final report to be produced. However, it has not yet been possible to complete this review which will now need to slip to the March Committee.
Review of all other outstanding audit recommendations (Wider piece of work)	1	-	Audit Targeted for Completion – September 2021 Little progress has been made on this large piece of work that has been outstanding for a number of years, although in the meantime some targeted follow up work has commenced and more has been built into the 2020/21 plan. Given the impact on the resources from the pandemic we are now proposed to suspend this work until 2021/22.
2019/20			
Recording of Sickness through the HR 21 system	6	10	Audit Targeted for Completion – March 2021 – On Target This audit is substantially finished. The extra testing requested has been completed and a revised draft report issued to the support officer for review which should allow this audit to be shortly finalised.

*A key to the information in this column is given in Appendix FOUR

APPENDIX TWO

Audits in the 2020/21 Plan

Audit Title & Report Number	Stage reached of 10*	Days in Plan	Assurance Opinion	Direction of Travel & Date of last audit	Progress report date	Errors Found? Y/N	New Recommendations		Previous Recs. (E and I only)			
							Essential	Important	Implemented	Cancelled	In Progress	Not Implemented
FUNDAMENTAL SYSTEM AUDITS												
Benefits (1204)	1	15										
Income Management (1205)	4	15										
Accounts Receivable (1206)	1	15										
SERVICES & SYSTEMS – HIGH RISK												
Democratic Representation and Management (including members allowances and expenses) (1207)	1	12										
Household Waste Collection (1200)	5	10										
Recycling (1199)	5	8										
Parking Enforcement (1208)	1	10										
Daedalus Operating Contracts (1201)	4	15										
SERVICES & SYSTEMS – Other												
Service Charges and Recharges - Council Tenants (1203)	5	15										
CORPORATE, SPECIALIST GOVERNANCE & RISK (OPINION)												
Construction Industry Tax Scheme (CIS) (1211)	4	5										
COMPUTER AUDITS												
Benefits and Local Tax Computer Systems (1209)	1	15										
Internet and Email access (1210)	1	12										
FOLLOW UP												

Audit Title & Report Number	Stage reached of 10*	Days in Plan	Assurance Opinion	Direction of Travel & Date of last audit	Progress report date	Errors Found? Y/N	New Recommendations		Previous Recs. (E and I only)			
							Essential	Important	Implemented	Cancelled	In Progress	Not Implemented
Cloud (1212)	4	8										
Tenancy Management (1213)	5	5										
Safeguarding (1202)	4	5										
Housing Rents (1214)	5	6										
WIDER WORK												
Social Media Monitoring by Services (1217)	4	-										
Targeted Assistance with recommendation Implementation (1215)	4	-										
Contract Management	Not Started	-										
Disabled Facility Grants – Grant certification 2019/20	Cancelled	-										
Totals		171										
RESERVE AUDITS												
Vehicle Maintenance ordering, invoice management and stock control	Not Started	15										
Car Loans	Not Started	5										
Housing Voids - Follow Up	Not Started	5										
Pre-application advice cost comparison to income	Not Started	5										
Annual Testing of Procurement Decisions	Not Started	-										

* A key to the information in this column is given in Appendix FOUR

Findings from the Latest Completed Audits

There are no completed audits for inclusion in this progress report.

APPENDIX FOUR

Reference Tables

1. Scale of Assurance Opinions

Strong	There is a strong system of control designed and operating effectively. Any weaknesses found were low impact and do not significantly affect key controls or the achievement of the objectives of the system.
Reasonable	There is basically a sound system of internal control, but weaknesses were found in system design or compliance, which result in some risk to the achievement of the system objectives.
Limited	There are some weaknesses in the system of control designed or the level of compliance which result in significant risk to the achievement of the system objectives.
Minimal	Fundamental weaknesses have been identified such that many key controls are absent or not operating effectively which may put at risk the achievement of the corporate control objectives.

2. Scale of Recommendation Priorities

Essential	A fundamental weakness in the control system which presents immediate risk to the service or system of a significant nature. Requires urgent attention by management. Reported to the A&G Committee and implementation of proposed actions are monitored.
Important	A significant control weakness where the risk is not imminent or only of a moderate nature. This needs addressing but is not urgent. Reported to the A&G Committee and implementation of proposed actions are monitored.
Advisory	A weakness or opportunity for improvement where the risk poses no great threat and is relatively minor. Consideration should be given to addressing the weakness if there is the appetite and/or capacity to implement the improvements. Actions are not tracked.

3. Stages of An Audit Assignment

Stage 1	The Audit teams have started drawing up the scope of coverage for the assignment.
Stage 2	A scoping meeting has been held with the Sponsor in the client service.
Stage 3	The Terms of Reference for the Assignment have been issued.
Stage 4	The Auditor has started to deliver the agreed scope of work.
Stage 5	A first draft of the report has been received by the Support Officer to be reviewed.
Stage 6	Any additional testing identified has been completed.
Stage 7	An exit meeting has been held with the Sponsor giving the preliminary feedback from the work.
Stage 8	The draft report has been received by the in-house audit team.
Stage 9	The draft report has been issued to the Service Sponsor and is awaiting their response.
Stage 10	The final report has been issued.

FAREHAM

BOROUGH COUNCIL

Report to Audit and Governance Committee

Date: 23 November 2020
Report of: Head of Finance and Audit
Subject: REVIEW OF WORK PROGRAMME

SUMMARY

This report reviews the current work programme for the Committee.

RECOMMENDATION

It is recommended that the Audit and Governance Committee approve the work programme for the rest of the municipal year, as shown in Appendix A to this report.

INTRODUCTION

1. This report brings the latest work programme for review by the Committee.

WORK PROGRAMME 2020/21

2. The progress on the work programme for the year is shown in Appendix A. This shows the reports expected in relation to each of the functions of the Committee along with an update on the delivery of the programme.
3. There have been two proposed changes to the programme approved in the October 2020 meeting. The first is that the Members' Training and Development report is now in the programme for the March meeting rather than the November one. This reflects when the report was originally scheduled to come to the Committee and allows the report to reflect a full year of activity.
4. The second is that the External Auditor's Annual Letter has been postponed until the March meeting to allow the audit of Fareham Borough Council for 2019/20 to be fully completed first.

RISK ASSESSMENT

5. There are no significant risk considerations in relation to this report.

CONCLUSION

6. The work programme in place is appropriate to meet the responsibilities of the Committee.

Background Papers: None

Reference Papers: Report to the Audit and Governance Committee – 19 October 2020 - Annual Report of the Committee

Enquiries:

For further information on this report please contact Elaine Hammell. (Ext 4344)

APPENDIX A

WORK PROGRAMME FOR 2020/21

Committee Function and Report Subject		Frequency	Last Covered	July 2020	October 2020	November 2020	March 2021
OVERALL PURPOSE AND ACCOUNTABILITY							
Review of Work Programme and training plan		Quarterly	2020-21		Completed	YES	YES, and Annual Report
Review of the Functions of the Committee		3 yearly	2019-20				
GOVERNANCE, RISK AND CONTROL							
Corporate Governance & AGS	Local Code of Corporate Governance	As needed	2016-17				
	Annual Governance Statement (AGS)	Annual	2020-21		Completed		
Risk Management	Policy	As needed	2016-17				
	Risk Management Monitoring Reports	6 monthly	2019-20				YES
	Business Continuity	3 yearly	2018-19				
	Specific Risk Management topics	As needed	2019-20 (cyber security risks)				
Value for Money	Specific VFM studies	As needed	None				
Counter Fraud	Counter Fraud Policy and Strategy	3 yearly	2016-17				
	Anti-Bribery Policy	As needed	2011-12				
	Sanctions and Redress Policy	As needed	2016-17				
	Counter Fraud Annual Report	Annually	2020-21		Completed		
Partnerships	Partnership Governance Report	As needed	NEW			YES	
AUDIT							
Internal Audit	Internal Audit Strategy	3 yearly	2018-19				
	Internal Audit Annual Plan	Annual	2020-21		Completed		YES
	Internal Audit Progress Report	Quarterly	2020-21		Completed	YES	YES
	Head of Audit's Annual Opinion	Annual	2020-21		Completed		

Committee Function and Report Subject		Frequency	Last Covered	July 2020	October 2020	November 2020	March 2021
External Audit	Update on Arrangements for Appointment of External Auditors	As needed	2018-19				
	Annual Plan and Fee	Annual	2020-21		Completed		YES
	Annual Audit Letter	Annual	2019-20			Moved to the March 2021 meeting	YES
	Annual Certification Report	Annual	2020-21		Completed		YES
	Specific reports from inspection agencies	As needed	2018-19 (RIPA)				
FINANCIAL REPORTING							
Statement of Accounts		Annual	2019-20			YES	
External Audit – Audit Results Report		Annual	2019-20			YES	
WIDER FUNCTIONS OF THE COMMITTEE							
Standards and Ethics	Review of Code of Conduct for Members	As needed	2015-16				
	Review of member / officer protocol	As needed	2008-09				
	Annual Ombudsman Reports and Overview of Complaints against members	Annual	2019-20			YES	
	Review of Members Training and Development Programme	Annual (New)	2015-16			Moved to the March 2021 meeting	YES
Treasury Management	Treasury Management Strategy and Indicators	Annual	2019-20			YES	YES - Policy and indicators
Key Policy Review	Annual Review of the Constitution	Annual	2019-20			YES	
	Review of Financial Regulations	3 yearly	2019-20				
	Review of Procurement and Contract Procedure Rules	3 yearly	2020-21		Completed		
Other Matters referred to the Committee	Updates on legal issues	As needed	2017-18				
	Issues referred by the Chief Executive Officer, Directors and Other Council Bodies	As needed	None				
Number of Items				0	9	8	9