

Notice of Meeting

General Purposes Committee

Date: Wednesday 10 February 2021

Time: 4.00 pm

Venue: Being held virtually by Microsoft Teams. The public can listen to a live stream here:

<http://www.audiominutes.com/p/player/player.html?userid=tvbc>

For further information or enquiries please contact:

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Legal and Democratic Service

Test Valley Borough Council,

Beech Hurst, Weyhill Road,

Andover, Hampshire,

SP10 3AJ

www.testvalley.gov.uk

The recommendations contained in the Agenda are made by the Officers and these recommendations may or may not be accepted by the Committee.

PUBLIC PARTICIPATION SCHEME

If members of the public wish to address the meeting they should notify the Legal and Democratic Service at the Council's Beech Hurst office by noon on the working day before the meeting.

Membership of General Purposes Committee

MEMBER

WARD

Councillor K Hamilton (Chairman)	Andover Harroway
Councillor K North (Vice-Chairman)	Andover Romans
Councillor N Adams-King	Blackwater
Councillor D Baverstock	Romsey Cupernham
Councillor M Cooper	Romsey Tadburn
Councillor S Cross	North Baddesley
Councillor A Dowden	Valley Park
Councillor M Flood	Anna
Councillor I Jeffrey	Mid Test
Councillor R Meyer	Andover Winton
Councillor P North	Bourne Valley

General Purposes Committee

Wednesday 10 February 2021

AGENDA

**The order of these items may change as a result of members
of the public wishing to speak**

- 1 Apologies**
- 2 Public Participation**
- 3 Declarations of Interest**
- 4 Urgent Items**
- 5 Minutes of the meeting held on 4 November 2020**
- 6 Statement of Accounts 2019/20 4 - 158**

To consider the 2019/20 Statement of Accounts for approval and the Ernst & Young's Annual Audit results.

ITEM 6

Statement of Accounts 2019/20

Report of the Head of Finance & Revenues

Recommended:

1. **Ernst & Young's Annual Audit Results Report (Annex 1 to the report):**
 - a. **That the matters raised in the report be considered before authorising the financial statements for issue.**
 - b. **That the proposed audit opinion and value for money conclusion be noted.**
2. **That the letter of representation (Annex 2 to the report) be approved.**
3. **That the audited Annual Statement of Accounts for the financial year 2019/20 (Annex 3 to the report) be approved.**

SUMMARY:

- The Council is required to prepare an Annual Statement of Accounts and have those accounts audited. This report presents the audited Annual Statement of Accounts for approval together with the Annual Audit Results Report of the Council's external auditors, Ernst & Young.
- The Statement of Accounts is presented with an unqualified opinion; this means the auditors have found no unadjusted material errors or misstatements in the accounts.

1 Introduction

- 1.1 The Council is required to produce and approve an Annual Statement of Accounts for each financial year.
- 1.2 The accounts for the year ended 31 March 2020 have now been audited by Ernst & Young and the Annual Statement of Accounts, together with the auditor's Annual Audit Results Report are presented here for approval.

2 Ernst & Young's Annual Audit Results Report

- 2.1 As part of the reporting process, Ernst & Young produce an Annual Audit Results Report (AARR). This is shown in Annex 1.
- 2.2 The AARR details findings in respect of the audit of the accounts and investigations into the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources.

- 2.3 An unqualified opinion is expected to be given in respect of both the Annual Statement of Accounts and the Council's value for money arrangements. This means that the auditors have found no material areas of concern as part of their audit where suitable adjustments to the accounts have not been made.

3 2019/20 Statement of Accounts

- 3.1 The accounts were prepared in accordance with statutory guidance and deadlines.
- 3.2 The former Head of Finance approved the draft financial statements for audit on 17 July 2020. Following this, the accounts were submitted to Ernst & Young along with relevant working papers in order that the audit could be carried out.
- 3.3 The usual deadline for publishing audited accounts was moved from the usual date of 31 July 2020 to 30 November 2020. This was to make some allowance for the impact that coronavirus would have on both the Council and auditor resources, additional work that would be required as a result of the pandemic and having to carry out the audit without relying on on-site attendance for the bulk of the audit work.
- 3.4 Despite this extension to the reporting deadline, many Councils were unable to sign off their audits before the end of November. EY's Audit Manager gave a verbal update on the progress of the audit to the Audit Panel meeting on 23 November 2020.
- 3.5 Aside from minor presentational changes, there were two main areas where changes to the accounts have been made from the version that was approved for audit.
- 3.6 Impact of coronavirus

The coronavirus has had a significant impact on the Council's finances and operating processes. Budget update reports have highlighted the expected financial impact in 2020/21 and 2021/22 and many staff have moved from office-based work to home-working.

Although the impact was just taking hold at the end of the financial year in question, auditors must also take into account material events that take place after the balance sheet date and so must give consideration to the effects felt in 2020/21.

Additional audit work was undertaken to focus on the Council as a going concern – that is to say whether it has sufficient financial resilience to continue delivering its functions after taking into account the impacts of coronavirus.

This resulted in a number of additional and updated disclosures but does not affect the bottom line nor does it identify any material risk that the Council will continue as a going concern.

3.7 Valuation of Investment Properties

The audit challenged the approach that was used in the preparation of investment property valuations in the accounts.

This is a particularly technical area that is undertaken by RICS qualified valuers. The relative lack of comparable, local, market evidence for similar assets makes the valuation assessment of some of these assets even harder.

The approach used in the preparation of the draft accounts was similar to that used in previous years. However, following initial audit testing, EY identified that the valuation included in the draft accounts was below the level they would expect for the number and type of investment assets held.

An independent review was instigated to assess the most material asset values and resulted in a recommendation that the value shown in the draft accounts be increased. This led to a significant increase (c£40M) in the value shown of investment properties.

However, as significant as this increase is, it doesn't affect the level of financing that is available to fund Council services or future capital investment. Accounting rules prevent the Council from using unrealised gains on asset values for any purpose.

- 3.8 Before approving the Annual Statement of Accounts, Councillors should consider the Council's Annual Governance Statement shown at the end of the Statement of Accounts (Annex 3). This remains unchanged from the statement approved by Council on 2 September 2020.

4 Conclusion and reasons for recommendation

- 4.1 The Statement of Accounts presented with this report is recommended to be approved by the General Purposes Committee as the Council's audited Statement of Accounts for 2019/20.
- 4.2 It is expected that Ernst & Young will be issuing an unqualified opinion in respect of both the Annual Statement of Accounts and on the Council's ability to deliver value for money.
- 4.3 The reason for the recommendation is to comply with a statutory duty to approve the Council's audited Statement of Accounts each year.

<u>Background Papers (Local Government Act 1972 Section 100D)</u>			
None			
<u>Confidentiality</u>			
It is considered that this report does not contain exempt information within the meaning of Schedule 12A of the Local Government Act 1972, as amended, and can be made public.			
No of Annexes:	3	File Ref:	N/A
(Portfolio: Finance) Councillor M Flood			
Officer:	Carl Whatley	Ext:	8240
Report to:	General Purposes Committee	Date:	10 February 2021

**Test Valley Borough
Council
Audit results report**

Year ended 31 March 2020

January 2021

25 January 2021



Dear Members

We are pleased to attach our audit results report for the forthcoming meeting of the General Purposes Committee. This report summarises our preliminary audit conclusion in relation to the audit of Test Valley Borough Council for 2019/20.

We have made significant progress on our audit of Test Valley Borough Council for the year ended 31 March 2020. However, progress has been impacted due to the need to work remotely due to the impact of the Covid-19 pandemic and other matters arising in the conduct of the audit.

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 4. 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 Those Charged with Governance 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 General Purposes Committee meeting on 10 February 2021.

Yours faithfully

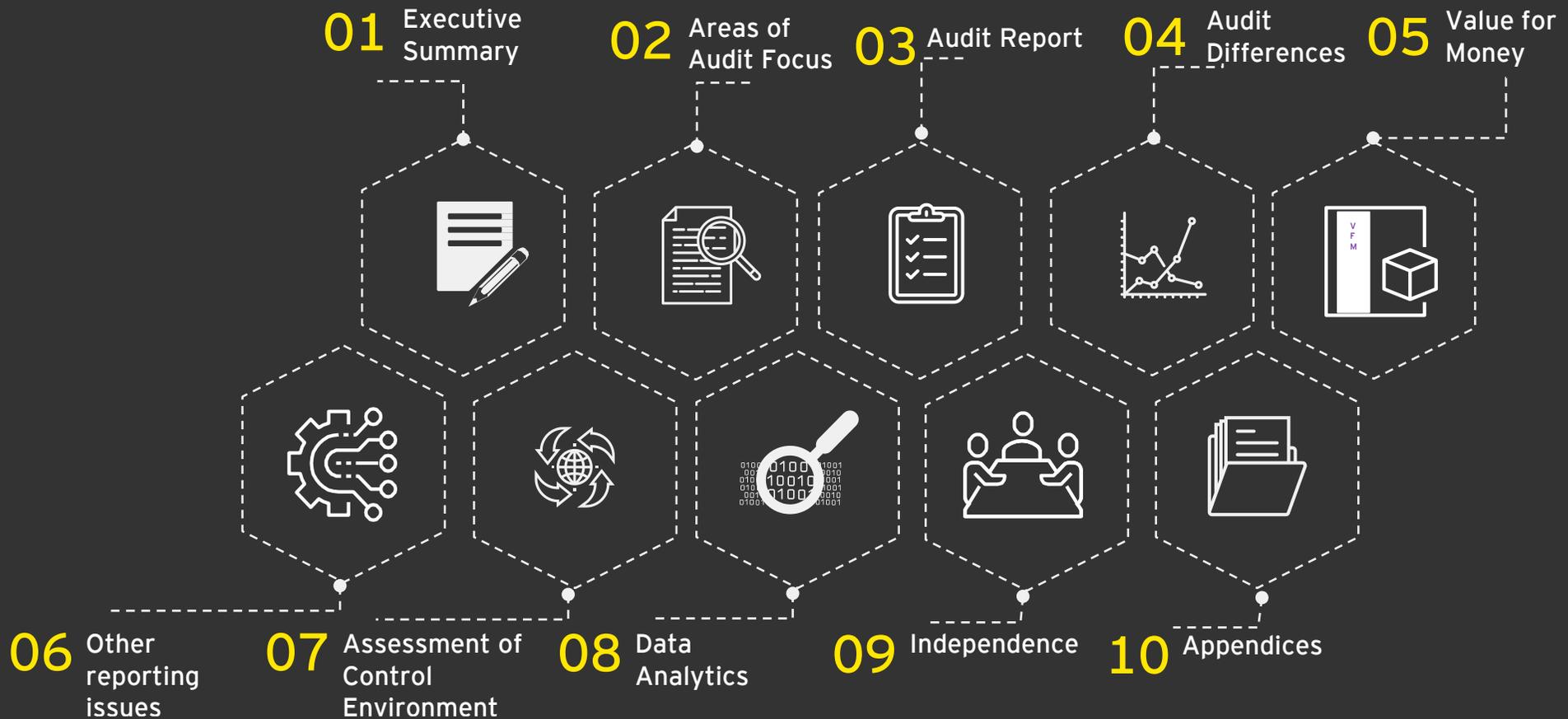
Kevin Suter

Associate Partner

For and on behalf of Ernst & Young LLP

Encl

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Public Sector Audit Appointments Ltd (PSAA) have issued a 'Statement of responsibilities of auditors and audited bodies'. It is available from the Chief Executive of each audited body and via the PSAA website (www.psa.co.uk). This Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas. The 'Terms of Appointment (updated April 2018)' issued by PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and statute, and covers matters of practice and procedure which are of a recurring nature.

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

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



01 Executive Summary

Executive Summary

Scope update

In our audit planning report presented at the 16th March 2020 Audit Panel meeting, we provided you with an overview of our audit scope and approach for the audit of the financial statements. We carried out our audit in accordance with this plan, with the following exceptions:

Changes to reporting timescales

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

Changes to our risk assessment and areas of audit focus as a result of Covid-19

- **Valuation of land and buildings** - The Royal Institute of Chartered Surveyors (RICS), the body setting the standards for property valuations, has issued guidance to valuers highlighting that the uncertain impact of Covid-19 on markets might cause a valuer to conclude that there is a material uncertainty. Caveats around this material uncertainty have been included in the year-end valuation reports produced by the Authority's valuers. We consider that the material uncertainties disclosed by the valuers continue to support additional focus relating to disclosures on the valuation of property, plant and equipment and investment property. We responded by using our EY valuation specialists for a sample of property valuations.
- ▶ **Disclosures on Going Concern** - Financial plans for 2020/21 and medium term financial plans will need revision for Covid-19. We considered that 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.
- ▶ **Events after the balance sheet date** - We identified an increased risk that further events after the balance sheet date concerning the current Covid-19 pandemic may occur and need to be disclosed. The amount of detail required in the disclosure needed to reflect the specific circumstances of the event and Local Authority.
- ▶ **Adoption of IFRS16** - The adoption of IFRS 16 by CIPFA/LASAAC as the basis for preparation of Local Authority Financial Statements has been deferred until 1 April 2022. 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.

Executive Summary

Scope update

Changes in materiality

- In our Audit Committee Planning Report, we communicated that our audit procedures would be performed using a materiality of £1,368,000, with performance materiality, at 75% of overall materiality, of £1,026,000, and a threshold for reporting misstatements of £68,000. We have considered whether any change to our materiality is required in light of Covid-19. Following this consideration we remain satisfied that the basis for planning materiality, performance materiality and our audit threshold for reporting differences reported to you in our Audit Planning Report remain appropriate.
- The basis of our assessment has remained consistent with prior years at 2% of gross operating expenditure. Using the draft year end financial statements we have updated our overall materiality assessment to £1,408,380. This results in updated performance materiality, at 75% of overall materiality, of £1,056,285, and an updated threshold for reporting misstatements of £70,419.

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.

Due to the Covid-19 context, EY have added mandatory consultation procedures regarding the content and form of the auditor report, to ensure the sufficient and appropriateness of that report with the work undertaken and client disclosures.

The above 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 pages 38 and 39.



Executive Summary

Status of the audit

We have substantially progressed our audit of Test Valley 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 Authority's financial statements in the form which appears at Section 4. However until work is complete, further amendments may arise:

- Completion of our final manager and Associate Partner review processes.
- Completion of subsequent events review.
- Receipt of the signed management representations letter.

Executive Summary

Audit differences

We identified one unadjusted audit difference in the draft financial statements which management has chosen not to adjust. We ask that it be corrected or a rationale as to why it is not corrected be approved by Those Charged with Governance and included in the Letter of Representations. The aggregated impact of unadjusted audit differences is £590,000. We agree with management's assessment that the impact is not material.

At the time of writing this report, we had identified no audit differences which have been adjusted by management. However, as shown on Page 7, there are areas of testing ongoing. We also note that disclosure changes had been identified both by us and management during the course of the audit process.

Areas of audit focus

Our Audit Planning Report identified key areas of focus for our audit of Test Valley 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:

- Risk of fraud in revenue and expenditure recognition - incorrect capitalisation of revenue expenditure;
- Misstatements due to fraud or error.
- Valuation of Land and Buildings.
- Pension Liability Valuation.
- Financial Statements presentation.
- Going concern.
- Events after the balance sheet date.

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 issues.
- There are no other significant issues to be considered.

We summarise our consideration of these matters, and any others identified, in the "Key Audit Issues" section of this report. There are no other matters, apart from those reported by management or disclosed in this report, which we believe should be brought to the attention of Those Charged with Governance.

Executive Summary

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.

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.

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

Other reporting issues

We have reviewed the information presented in the Annual Governance Statement for consistency with our knowledge of the Authority. Our procedures were ongoing at the time of writing this report.

We are yet to perform the procedures required by the National Audit Office (NAO) on the Whole of Government Accounts submission because the NAO have not yet issued the group instruction.

We have no other matters to report.

Independence

Please refer to Section 10 for our update on Independence.



02 Areas of Audit Focus

Areas of Audit Focus

Significant risk

Risk of fraud in revenue and expenditure recognition - Incorrect 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.

There is incentive for incorrectly classifying revenue expenditure as capital. Capitalising would remove the expenditure from the General Fund and Council Tax funding, and give opportunity for funding through capital grants, receipts or even borrowing.

There is material opportunity as the Authority's capital programme for 2019/20 of Circa £14,000,000 is significantly above our level of materiality. The main capital expenditure elements of this programme include Community and Leisure for £4,500,000 and Property & Asset Management for £4,300,000.

What judgements are we focused on?

Inappropriate capitalisation of revenue expenditure would decrease the net expenditure from the general fund, and increase the value of non-current assets.

What did we do?

We took a substantive approach to respond to this risk, undertaking the following procedures:

- Tested a sample of capital expenditure to verify that revenue costs had not been inappropriately capitalised;
- For significant additions we examined invoices, capital expenditure authorisations and other data that support these additions. We review the sample selected against the definition of capital expenditure in IAS 16.
- Journal testing - we used our testing of Journals to identify high risk transactions, such as items originally recorded as revenue expenditure and subsequently capitalised.

What are our conclusions?

Our work to document and evaluate processes and controls over capitalising Property, Plant and Equipment and around raising journals is complete. There were no issues identified from this work.

Our substantive work on capital expenditure and journals is also complete. No issues have been identified from our testing.



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 focussed on testing key areas that are susceptible to management bias.

What did we do?

Our testing included:

- Inquiry of management about risks of fraud and the controls put in place to address those risks.
- Understanding the oversight given by Those Charged With Governance of management's processes over fraud.
- Consideration of the effectiveness of management's controls designed to address the risk of fraud.
- Performing mandatory procedures regardless of specifically identified fraud risks, including:
 - Testing the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements,
 - Assessing accounting estimates for evidence of management bias, and
 - Evaluating the business rationale for significant unusual transactions.

What are our conclusions?

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

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

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

We have no findings relating to Journals testing.



Audit risks

Other areas of audit focus

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

What is the risk/area of focus?

Valuation of Land and Buildings:

The value of land and buildings included within Property, Plant and Equipment (PPE) and Investment Properties (IP) represent significant balances in the Authority's accounts. Within the accounts presented for audit they totalled £82,431,000 and £99,259,000. Movements during 2019/20 included valuation changes, impairment reviews and depreciation charges.

Management is required to use material judgemental inputs and apply estimation techniques to calculate the year-end balances recorded in the balance sheet. The valuation date for 2019/20 was 31 January 2020 and most assets were valued by the Council's external valuer Vail Williams, with some valuations carried out by the internal commissioning team.

In the wake of the Covid-19 pandemic, the Royal Institute of Chartered Surveyors (RICS), the body setting the standards for property valuations, 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 both by the Authority's internal valuers and by the external valuers Vail Williams.

Other areas of focus for the audit were the roll forward of valuations to year end; valuer reliance on data provided by the Council; and use of variables and assumptions.

What did we do?

- As part of our work on disclosure in the draft financial statements, we reviewed disclosures on the valuers' material uncertainty over valuation of property, plant and equipment and investment property. We increased our samples due to this disclosure.
- For a sample of six properties, we engaged EY Real Estate valuations specialists to review in detail the methodology, data and assumptions supporting valuations. The properties selected for this detailed review comprised four investment properties with a combined year end valuation of £37,520,000 and two other properties with a combined year end valuation of £4,100,000.
- Further testing was undertaken on land and buildings by the local audit team.
- We considered the adequacy of the scope of valuer work performed; their professional capabilities; and sampling techniques they employed.
- The audit team conducted sample testing of key asset information used by the valuers in performing their valuation (e.g. floor plans to support valuations based on price per square metre).
- We 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 Property, Plant and Equipment and annually for Investment Property. We also considered if there are any specific changes to assets that have occurred and whether these are reflected in valuations.
- We reviewed the effectiveness of arrangements for rolling forward valuations undertaken previous to 31 March 2020, to the year end.
- We reviewed assets not subject to formal valuation in 2019/20 to confirm that the remaining asset base is not materially misstated.
- We considered any changes to useful economic lives as a result of the most recent valuation.
- Tested to confirm that accounting entries have been correctly processed in the financial statements.

Audit risks

Other areas of audit focus

Valuation of Land and Buildings - What are our conclusions?

Our work on the valuation of land and buildings included assets held within the Investment Properties and Property, Plant and Equipment headings on the Council's balance sheet.

Most significant of the findings related to disagreement over the Council's valuation of the Walworth Business Park, specifically the head-leases initially valued at £24.85m by its valuer. We disagreed with the valuation, predominantly due to the inclusion of an assumption of 7.75% yield. Yield increases when risk increases, and the evidence provided to us identified a low level of risk relating to the income from this asset. We judged a more appropriate to a range of 4.5% to 5.5%. The Council commissioned Vail Williams to undertake a detailed valuation, arriving at a revised value of £46.4m. Based on the evidence provided from the new valuation including of recent or similar market evidences, we agreed this valuation was reasonable and within our estimated range.

Due to the findings the council subsequently reviewed the valuation of the East and West Portway assets, which contained similar characteristics. Amendments of £4.997m and £12.882m were made respectively for these assets.

There were no reportable differences from the other assets selected for our specialists review.

We additionally completed further work by the audit team, taking into account information from our specialists findings. We identified further issues including:

- Inaccurate calculations; and
- Inconsistencies of valuations to the amounts recorded in the accounts.

Management had not initially undertaken a review this year of the material accuracy of assets not revalued. At our request this review was completed for the assets valued using a Depreciated Replacement Cost (DRC) method. This demonstrated the material accuracy of the valuations. We extended this review ourselves to any other property assets, again finding no indication of material variation to the recorded values.

There are no other findings to report. In all other respects, assumptions, accounting entries and disclosures are appropriate.

Audit risks

Other areas of audit focus

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

What is the risk/area of focus?

What did we do?

Pension Liability Valuation

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

The Authority's pension fund deficit is a material estimated balance and the Code requires that this liability be disclosed on the balance sheet. At 31 March 2020 the net liability totalled £62,791,000.

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

We note that in 2018-19 we identified an unadjusted difference relating to the Council's GMP Equalisation adjustment to pension liability value at 31 March 2019. We estimated this to be £338,000. We also identified an adjusted difference relating to the Authority's McCloud Judgement to pension liability valued at 31 March 2019. We estimated this to be £1,620,000.

- For 2019/20, we noted that the Authority's net liability to the pension scheme of £62,791,000 was comprised of Total Scheme Liabilities with a total net present value of £176,501,000 off-set by Total Scheme Assets with a closing fair value of £113,710,000.
- We liaised with the auditors of Hampshire Pension Fund, to obtain assurances over the information supplied to the actuary in relation to Test Valley Borough Council. We also:
 - 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,
 - Considered any reviews by the EY actuarial team,
 - Monitored ongoing developments in areas such as the McCloud rulings, and
 - Reviewed and tested the accounting entries and disclosures made within the Authority's financial statements in relation to IAS19.

Audit risks

Other areas of audit focus

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

Pension Fund Valuation - What is our conclusion?

From the Pension fund audit We have received communications of an expected difference in pension fund asset valuations between auditor and actuarial estimate. The Test Valley Borough Council share of that difference is estimated to be £590,000 and that difference is expected to be an unadjusted difference of judgement in the Test Valley Borough Council year end financial statements.

We note that a UK Tribunal ruled in June 2020 in the Goodwin discrimination case that additional liabilities are likely to be required to correct widow/ widower discrimination in the Teacher's Pension scheme. The Local Government pension scheme is likely to be equally affected. Test Valley Borough Council assessed that the maximum impact of adjusting for Goodwin could reasonably be assessed as immaterial and we concurred with that assessment.

In July 2020, UK Government published a remediation consultation for McCloud. Aon Hewitt estimation methodology is in line with that endorsed by the consultation and liability calculations were therefore unaffected for Test Valley Borough Council by the McCloud announcement on methodology.

There are no other issues arising from our work.

Audit risks

Other areas of audit focus

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

What is the risk/area of focus?	What did we do?
<p>Financial Statements presentation - Expenditure and Funding Analysis and Comprehensive Income and Expenditure Statement</p> <p>Test Valley Borough Council's internal reporting structure changed during 2019/20. The classifications on the Expenditure and Funding Analysis and of the Comprehensive Income and Expenditure Statement will need to reflect the new reporting structure, both for 2019/20 and for 2018/19 amounts.</p>	<p>We reviewed proposed changes to the format of accounts during the interim audit visit,</p> <p>We confirm that the prior year reclassification was correctly disclosed, and We tested correctness extraction from the ledger and consistency of that extraction with the internal reporting structure for all other items on the Income Statement and Expenditure and Funding Analysis.</p> <p>There are no issues to report.</p>

Audit risks

Other areas of audit focus

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

What is the risk/area of focus?

What did we do?

Going Concern

Covid-19 has created a number of financial pressures throughout Local Government. There is currently uncertainty in terms of financial support from MHCLG that covers all financial consequences of Covid-19. Financial plans for 2020/21 and medium term financial plans will need revision for Covid-19. The disclosures on Going Concern for 2019/20 also became a focus of attention. We consider the unpredictability of the current environment gives rise to a risk that the Local Authorities may not appropriately disclose the key factors relating to going concern.

CIPFA's Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 sets out that organisations that can only be discontinued under statutory prescription shall prepare their accounts on a going concern basis.

However, International Auditing Standard 570 Going Concern, as applied by Practice Note 10: Audit of financial statements of public sector bodies in the United Kingdom, still requires auditors to undertake sufficient and appropriate audit procedures to consider whether there is a material uncertainty on going concern that requires reporting by management within the financial statements, and within the auditor's report. We are obliged to report on such matters within the section of our audit report 'Conclusions relating to Going Concern'.

To do this, the auditor must review management's assessment of the going concern basis applying IAS1 Presentation of Financial Statements.

Events after the balance sheet date

We identified an increased risk that further events after the balance sheet date concerning the current Covid-19 pandemic will need to be disclosed. The amount of detail required in the disclosure needed to reflect the specific circumstances of the Local Authority.

We reviewed the proposed going concern disclosures for inclusion in the financial statements and the Council's associated assessments including a forecast of cash flows produced by management through to March 2022.

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 without an identified need to borrow.

The Council updated its disclosures in the accounts to reference these factors. We were satisfied with the revised disclosure; that it adequately and sufficiently disclosed material events and conditions in relation to the going concern assumption of the Council, and that no material uncertainties exist.

No material events have been identified requiring disclosure.



03 Audit Report



Audit Report

Draft audit report

Our opinion on the financial statements

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF TEST VALLEY BOROUGH COUNCIL

Opinion

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

- Comprehensive Income and Expenditure Statement,
- Movement in Reserves Statement,
- Balance Sheet,
- Cash Flow Statement,
- The related notes 1 to 38 and the Expenditure & Funding Analysis, and
- Collection Fund and the related notes.

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 Test Valley 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 Head of Finance & Revenues' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Head of Finance & Revenues 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.



Audit Report

Draft audit report

Our opinion on the financial statements

Other information

The other information comprises the information included in the Statement of Accounts 2019/20, other than the financial statements and our auditor's report thereon. The Head of Finance & Revenues 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, Test Valley 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 Head of Finance & Revenues

As explained more fully in the Statement of Responsibilities for the Statement of Accounts set out on page 11, the Head of Finance & Revenues 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 Head of Finance & Revenues 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.



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 Test Valley Borough 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 Test Valley Borough 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, Test Valley Borough 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.



Audit Report

Our opinion on the financial statements

Certificate

We certify that we have completed the audit of the accounts of Test Valley 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 Test Valley 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 Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

Kevin Suter (Key Audit Partner)
Ernst & Young LLP (Local Auditor)
Southampton
Date



04 Audit Differences





Audit Differences

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

Summary of adjusted differences

Corrected misstatements 31 March 2020 (£)	Assets Debit/ (Credit)	Liabilities current Debit/ (Credit)	Liabilities non- current Debit/ (Credit)	Total Equity Debit/ (Credit)
Valuation amendments, and correction of other errors relating to Investment Properties.	40,566,065			(40,566,065)



Audit Differences

Summary of unadjusted differences

In addition we highlight the following misstatements to the financial statements and 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 Those Charged with Governance and provided within the Letter of Representations:

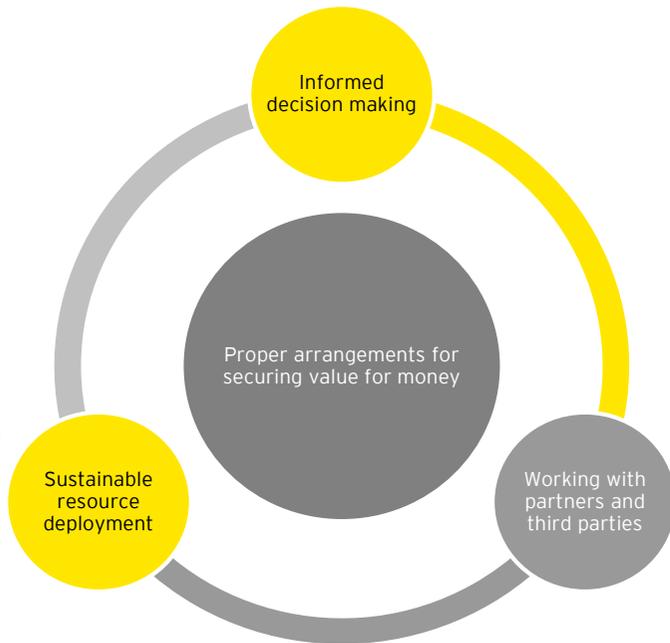
Uncorrected misstatements 31 March 2020 (£)	Balance Sheet (Decrease)/Increase			
	Assets Debit/ (Credit)	Liabilities current Debit/ (Credit)	Liabilities non- current Debit/ (Credit)	Total Equity Debit/ (Credit)
Judgemental differences:				
Unadjusted difference between auditor and actuary estimate of pension fund asset valuations			(590,000)	590,000
Balance sheet totals			(590,000)	590,000



05 Value for Money

Value for Money

Page 35



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 during 2019/20.



06 Other reporting issues

Other reporting issues

Other reporting issues

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

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

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

Financial information in the Statement of Accounts 2019/20 and published with the financial statements was consistent with the audited financial statements.

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

Our procedures were ongoing at the time of writing this 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.

Test Valley BC falls within the de-minimum threshold of £500m, and so we anticipate having no matters to report.

Other reporting issues

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 Authority’s financial reporting process. They include the following:

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

As at the time of drafting this report we have no further specific matters to draw to your attention.

The completion of the audit has taken longer than anticipated this year due to the operational impact of Covid-19. We were undertaking our interim procedures when the UK went into lockdown during March 2020, and less work was completed at that time than is usually the case.

For the final audit ‘visit’ we have been working remotely from the Council offices. This has meant longer elapsed time in communications and requests for information, when in normal circumstances we are located close to the Council officers and can discuss issues arising more quickly.



07

Assessment of Control Environment



Assessment of Control Environment

Financial controls

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

As part of our audit of the 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. However, we note that:

An external assessment of the internal audit function was carried out in April 2019. This assessment highlighted areas of non-conformance with Public Sector Internal Audit Standards (PSIAS) in a number of significant areas: Assurance Mapping; Strategic Framework; Resources; Audit Universe; and Audit Plan. As a result, although the Authority's Head of Internal Audit was able to provide Substantial Assurance on the effectiveness of the control framework and governance processes at Test Valley Borough Council for 2018/19, this opinion noted that it was qualified as a result of the PSIAS assessment.

A 32-Point Action Plan was prepared by Test Valley Borough Council to address the PSIAS findings. The Action Plan addressed seven areas requiring attention: Audit Manual; Reporting; Performance; Charter and Strategy; Universe and Plan; Quality Assurance; and Improvement Plan. The audit plan for 2019/20 had already been created based on the existing audit universe which, following the assessment had been declared as inadequate. Therefore it was not expected to be possible in the 2019/20 Audit Opinion to confirm that the Authority produced an audit plan which encompassed the key risks facing the council. However, by way of mitigation to this, the key fundamental systems audits were conducted under a new Risk based Auditing model which incorporated robust area-specific risk assessments.

The Authority's Head of Internal Audit was able to provide Substantial Assurance on the effectiveness of the control framework and governance processes at Test Valley Borough Council for 2019/20 without qualification.



08 Data Analytics



Use of Data Analytics in the Audit

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 Council's audit included testing journal entries and employee expenses, 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 of the Council's 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.

Payroll Analysis

We also use our general ledger analyser in our payroll testing. We analyse the data against a number of specifically designed procedures. These include analysis of payroll costs by month to identify any variances from established expectations, as well as more detailed transactional interrogation.



09

Independence

Independence

Confirmation

We confirm there are no changes in our assessment of independence since our confirmation in our audit planning report dated March 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 which you should review, as well as us. It is important that you and your Audit Committee consider the facts known to you and come to a view. If you would like to discuss any matters concerning our independence, we will be pleased to do this at the meeting of the General Purposes Committee on 10 February 2021.

We confirm we have not undertaken any non-audit work outside the NAO Code requirements in relation to our work.

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, senior management and its affiliates, including all services provided by us and our network to your Authority, 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 table overleaf includes a summary of the fees for the year ended 31 March 2020 in line with the disclosures set out in FRC Ethical Standard and in statute.



Independence

Analysis of Audit fees

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

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

Description (all fees exclude VAT)	Final Fee 2019/20	Planned Fee 2019/20	Final Fee 2018/19
	£	£	£
Audit Fee - Code work reflected in scale fee	40,679	40,679	41,061
CIES/EFA Restatements work	777	776	
IAS19 Pension Fund Protocol Procedures	813		
Impacts assessments for tribunal rulings on Pension Fund liabilities	466		
Additional fee to address Covid-19 related risks and impacts including Going Concern/Financial Sustainability	6,502		
Additional fee in connection with audit of Property, Plant and Equipment and Investment Properties valuations	8,885		
Total audit	58,122	41,455	41,455

All additional fees are subject to discussion with the Head of Finance & Revenues, and then final approval by PSAA Ltd. Details are included on page 39

Independence

Confirmation and analysis of Audit fees (continued)

An additional scale fee variation of £17,443 has been applied to the planned fee based on the following items:

- 1) £777 time incurred for the review of the restated CIES and EFA prior year comparators, due to change in reporting structure.
- 2) £813 has been submitted for IAS 19 Protocol Assurance provided by the Hampshire Pension Fund Auditors
- 3) £466 time for review of additional pension rulings and developments (McCloud and Goodwin) post year-end
- 4) £6,502 Covid-19 impacts:
 - We needed to update and revised risk assessments, including considering the impact on materiality. £775.
 - The identification of Going Concern being identified as an additional risk due to Covid-19 resulted in additional work including discussions, review/challenge of documents, cash flow forecasts, consideration of proposed disclosure. This additional time has been recorded at £3,278.
 - An additional cost of £629 has also been charged as we were required to consult with our professional practise department over the going concern disclosure in the accounts.
 - Delays in responses to requests for audit evidence, and from incomplete listings of debtor and creditor balances required us to book additional resource to complete our testing. £1,820.
- 5) £8,885 property asset valuations. The inclusion if material uncertainty disclosures in valuers reports required us to increase our level of testing of the valuation of Property, Plant & Equipment assets and Investment Properties, notably larger sample sizes to be tested. We were also required to use specialist valuers for a sample of assets. Our work identified a number of issues as set out on pages 13 and 14 which required further time to resolve.

Independence

Confirmation and analysis of Audit fees (continued)

Janet Dawson, our Government & Public Sector Assurance Lead, wrote to all Chief Finance Officers and Audit Committee (or equivalent) chairs on 11 February 2020 on the subject of the sustainability of UK local public audit. Amongst other issues her letter stated that we did not believe the existing scale fees provide a clear link with both a public sector organisation's risk and complexity, and the audit profession's context for cost and fee increases, including the attractiveness of audit, investment in technology, innovation and the regulatory environment.

Around the same time, PSAA consulted on its 2020/21 audit fees ([PSAA fee consultation](#)), discussing the challenging environment, new standards and regulatory requirements. They noted an appropriate forum for fee discussions from these impacts would be between the auditor and Chief Financial Officer, to take place as soon as possible as part of planning discussions for 2019/20 audits.

The subsequent review by Sir Tony Redmond ([Redmond Review](#)) has also highlighted that audit fees in the local authority sector have dropped significantly at the same time that audit fees in other sectors have significantly risen, and that no assessment of the amount it would cost to audit each local authority based on their level of audit risk has been made in the past ten years due to the methods applied by the Audit Commission and then PSAA. As such there is no guarantee that the fee paid by each local authority accurately reflects the risk profile or amount of audit work required for their external audit.

To address these issues we undertook an analysis of the changes in professional and regulatory requirements since our last tender to PSAA was submitted, and any other known changes in audit risk. For instance, where applicable, significant commercial property investments, creation of joint ventures, subsidiaries and other similar arrangements.

We identified a proposed fee rebasing of £20,488 under the headings of:

- Changes in risk;
- Increased regulatory requirements; and
- Client readiness and ability to support a technologically enabled audit.

As requested by PSAA, we discussed this with management on 22 May 2020, delayed from March 2020 due to the impact of the coronavirus pandemic.

We did not reach agreement. While management recognised many of these pressures and can see how they are reflected in the changes in the audit work, their view was that this is a decision for PSAA.

Having not reached agreement, and in light of managements comments, we will now submit the proposed rebasing to PSAA for their review and decision. We would like to thank management for their contribution to this debate and the positive manner in which they engaged with us, although we did not reach agreement

Independence

New UK Independence Standards

The Financial Reporting Council (FRC) published the Revised Ethical Standard 2019 in December and it will apply to accounting periods starting on or after 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 UK Public Interest Entities (PIEs). A narrow list of permitted services will continue to be allowed.

Summary of key changes

- Extraterritorial application of the FRC Ethical Standard to UK PIE and its worldwide affiliates
- A general prohibition on the provision of non-audit services by the auditor (or its network) to a UK PIE, its UK parent and worldwide subsidiaries
- A narrow list of permitted services where closely related to the audit and/or required by law or regulation
- Absolute prohibition on the following relationships applicable to UK PIE and its affiliates including material significant investees/investors:
 - Tax advocacy services - Remuneration advisory services - Internal audit services - Secondment/loan staff arrangements
- An absolute prohibition on contingent fees.
- Requirement to meet the higher standard for business relationships i.e. business relationships between the audit firm and the audit client will only be permitted if it is inconsequential.
- Permitted services required by law or regulation will not be subject to the 70% fee cap.
- Grandfathering will apply for otherwise prohibited non-audit services that are open at 15 March 2020 such that the engagement may continue until completed in accordance with the original engagement terms.
- A requirement for the auditor to notify the Audit Committee where the audit fee might compromise perceived independence and the appropriate safeguards.
- A requirement to report to the audit committee details of any breaches of the Ethical Standard and any actions taken by the firm to address any threats to independence. A requirement for non-network component firm whose work is used in the group audit engagement to comply with the same independence standard as the group auditor. Our current understanding is that the requirement to follow UK independence rules is limited to the component firm issuing the audit report and not to its network. This is subject to clarification with the FRC.

Next Steps

We do not provide any non-audit services which would be prohibited under the new standard.

Other communications

EY Transparency Report 2019

Ernst & Young (EY) has policies and procedures that instil professional values as part of firm culture and ensure that the highest standards of objectivity, independence and integrity are maintained. Details of the key policies and processes in place within EY for maintaining objectivity and independence can be found in our annual Transparency Report which the firm is required to publish by law. The most recent version of this Report is for the year end 30 June 2019: https://assets.ey.com/content/dam/ey-sites/ey-com/en_uk/about-us/transparency-report-2019/ey-uk-2019-transparency-report.pdf



10 Appendices

Appendix A

Required communications with Those Charged with Governance

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

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

 Appendix A

		Our Reporting to you
Required communications	What is reported?	When and where
Going concern	<p>Events or conditions identified that may cast significant doubt on the entity’s ability to continue as a going concern, including:</p> <ul style="list-style-type: none"> • Whether the events or conditions constitute a material uncertainty • Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements • The adequacy of related disclosures in the financial statements 	No conditions or events were identified, either individually or together to raise any doubt about Test Valley Borough Council’s ability to continue for the 12 months from the date of our report
Misstatements	<ul style="list-style-type: none"> • Uncorrected misstatements and their effect on our audit opinion • The effect of uncorrected misstatements related to prior periods • A request that any uncorrected misstatement be corrected • Material misstatements corrected by management 	Audit results report
Subsequent events	<ul style="list-style-type: none"> • Enquiry of the audit committee where appropriate regarding whether any subsequent events have occurred that might affect the financial statements. 	No subsequent events have been identified that would impact either individually or together on Test Valley Borough Council’s financial statements as at 31 March 2020
Fraud	<ul style="list-style-type: none"> • Enquiries of Those Charged with Governance 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: <ul style="list-style-type: none"> • Management; • Employees who have significant roles in internal control; or • 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 Those Charged with Governance responsibility. 	Audit results 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 	Audit results report
Independence	<p>Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence.</p> <p>Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as:</p> <ul style="list-style-type: none"> • The principal threats • Safeguards adopted and their effectiveness • An overall assessment of threats and safeguards • Information about the general policies and process within the firm to maintain objectivity and independence <p>Communications whenever significant judgments are made about threats to objectivity and independence and the appropriateness of safeguards put in place.</p>	Audit planning report and Audit results report

 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. 	We have received all requested confirmations
Consideration of laws and regulations	<ul style="list-style-type: none"> • Subject to compliance with applicable regulations, matters involving identified or suspected non-compliance with laws and regulations, other than those which are clearly inconsequential and the implications thereof. Instances of suspected non-compliance may also include those that are brought to our attention that are expected to occur imminently or for which there is reason to believe that they may occur • Enquiry of the audit committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the audit committee may be aware of 	We have asked management and those charged with governance. We have not identified any material instances or non-compliance with laws and regulations.
Significant deficiencies in internal controls identified during the audit	<ul style="list-style-type: none"> • Significant deficiencies in internal controls identified during the audit. 	Audit results report

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Test Valley Borough Council - General Purposes Committee - 10 February 2021

 Appendix A

		Our Reporting to you
Required communications	What is reported?	When and where
Written representations we are requesting from management and/or those charged with governance	<ul style="list-style-type: none"> Written representations we are requesting from management and/or those charged with governance 	Audit results report
Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	<ul style="list-style-type: none"> Material inconsistencies or misstatements of fact identified in other information which management has refused to revise 	Audit results report
Auditors report	<ul style="list-style-type: none"> Any circumstances identified that affect the form and content of our auditor's report 	Audit results report
Fee Reporting	<ul style="list-style-type: none"> Breakdown of fee information when the audit planning report is agreed Breakdown of fee information at the completion of the audit Any non-audit work 	Audit Planning Report and Audit Results Report

 Appendix B

Management representation letter

Management Representation Letter

[To be prepared on the entity's letterhead]
[Date]

Kevin Suter
Ernst & Young LLP
Grosvenor House
Grosvenor Square
Southampton
SO15 2BE

This letter of representations is provided in connection with your audit of the financial statements of Test Valley 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 financial position of Test Valley 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

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

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

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

 Appendix B

Management representation letter

Management Representation Letter

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 of the auditor because we do not consider that they impact on the overall truth and fairness of the financial statements.

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

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.

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

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

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.

 Appendix B

Management representations letter

Management Representation Letter

C. Information Provided and Completeness of Information and Transactions

We have provided you with:

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

All material transactions have been recorded in the accounting records and all material transactions, events and conditions are reflected in the financial statements, including those related to the COVID-19 pandemic.

We have made available to you all minutes of the meetings of the Cabinet, Council and General Purposes Committee and Audit Panel held through the year to the most recent meeting on the following date: **XXXX**

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.

We believe that the significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable. We have disclosed to you, and the Council has complied with, all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance, including all covenants, conditions or other requirements of all outstanding debt.

From 30th 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

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.

We have informed you of all outstanding and possible litigation and claims, whether they have been discussed with legal counsel.

We have recorded and/or disclosed, as appropriate, all liabilities related to litigation and claims, both actual and contingent, and have disclosed in Note 35 to the financial statements all guarantees that we have given to third parties.

 Appendix B

Management representation letter

Management Representation Letter

E. Subsequent Events

Other than as described in Note 36 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

We acknowledge our responsibility for the preparation of the other information. The other information comprises the Narrative Statement and Annual Governance Statement.

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

G. Use of the Work of a Specialist

We agree with the findings of the specialists that we engaged to evaluate the valuation of land and buildings and investment property, in the calculation of the NDR appeals provision, and in generating the IAS19 pension disclosures and have adequately considered the qualifications of the specialists in determining the amounts and disclosures included in the financial statements and the underlying accounting records. We did not give or cause any instructions to be given to the specialists with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an effect on the independence or objectivity of the specialists.

H. Estimates

We believe that the measurement processes, including related assumptions and models, used to determine the accounting estimates have been consistently applied and are appropriate in the context of the applicable financial reporting framework.

We confirm that the significant assumptions used in making the NDR appeals provision, valuation of assets and IAS19 disclosure estimates appropriately reflect our intent and ability to carry out specific courses of action on behalf of the entity.

We confirm that the disclosures made in the financial statements with respect to the accounting estimates are complete and made in accordance with the applicable financial reporting framework.

We confirm that no adjustments are required to the accounting estimates and disclosures in the financial statements due to subsequent events.

I. Retirement benefits

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

 Appendix B

Management representation letter

Management Representation Letter

Signed on behalf of Test Valley Borough Council

Yours faithfully,

 Carl Whatley
 (Head of Finance & Revenues and Section 151 Officer)
 Date

I confirm that this letter has been discussed and agreed at the
 General Purposes Committee on 10 February 2021

 Councillor K. Hamilton
 (Chair of the General Purposes Committee)
 Date

Schedule of unadjusted differences

Being the unadjusted difference between auditor and actuary estimate of
 pension fund asset values:

	CIES	CIES	SOFP	SOFP
	DR	CR	DR	CR
	£	£	£	£
Long Term Liabilities				590,000
Total Equity			590,000	

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ED None

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ey.com



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Web site www.testvalley.gov.uk

Contact: Carl Whatley
Telephone: 01264 368000
E-mail: Finance@testvalley.gov.uk
Your ref:
Our ref:
Date: 10th February 2021

Dear Kevin,

Letter of Representation – Test Valley Borough Council

This letter of representation is provided in connection with your audit of the financial statements of Test Valley 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 financial position of Test Valley 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.

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

ANNEX 2

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 aggregate, to the financial statements taken as a whole. We have not corrected these differences identified by and brought to the attention of the auditor because we do not consider that they impact on the overall truth and fairness of the financial statements.

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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.
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1. We have provided you with:
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 - Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.

ANNEX 2

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 Cabinet, Council and General Purposes Committee and Audit Panel held through the year to the most recent meeting on the following date: 13th January 2021.
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 30th July 2019 through the date of this letter we have disclosed to you any unauthorised 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 unauthorised 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.

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G. Use of the Work of a Specialist

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ANNEX 2

buildings and investment property and in generating the IAS19 pension disclosures 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.

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3. We confirm that the disclosures made in the financial statements with respect to the accounting estimates are complete and made in accordance with the applicable financial reporting framework.
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I. Retirement benefits

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

Signed on behalf of Test Valley Borough Council

Yours faithfully,

Carl Whatley

(Head of Finance & Revenues and Section 151 Officer)

Date

I confirm that this letter has been discussed and agreed at the General Purposes Committee on 10th February 2021.

Councillor K. Hamilton

(Chair of the General Purposes Committee)

Date

Schedule of unadjusted differences

Being the unadjusted difference between auditor and actuary estimate of pension fund asset values:

	CIES DR £	CIES CR £	SOFP DR £	SOFP CR £
Non-current liabilities				590,000
Reserves			590,000	

ANNEX 3



STATEMENT OF ACCOUNTS 2019/20

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NARRATIVE STATEMENT

This narrative statement provides a brief explanation of the Council's overall financial position and some key messages and aims to assist the readers in the interpretation of the accounting statements.

The Borough of Test Valley

Test Valley covers 62,758 hectares on the western side of Hampshire. The borough contains a mixture of urban, semi-urban and rural areas, with a large proportion of residents living in either Andover or Romsey and the surrounding areas, or in towns and villages scattered across the borough.

Key facts about Test Valley

Population 130,213 (SAPF 2019 base)¹

Average house price £320,000 March 2020 (£232,200 National Average)²

80.8%% of 16 – 64 Year olds in employment (78.9% National Average)³

Average gross weekly (Full time) earnings £613.70 (£587.0 National Average)³

1,045 (1.4%) of working age residents claiming job seekers allowance or universal credit (3.1% National Average)³

6,745 Business Enterprises³

14,486 tonnes of waste recycled or composted in 2019/20

1,515 planning applications received in 2019/20

Source:

1. *Hampshire County Council*
2. *Land Registry*
3. *NOMIS – Official Labour Market Statistics*

Governance

Following boundary reviews, with effect from the local elections in May 2019 Test Valley Borough Council consisted of 43 elected Councillors representing 20 wards. The political structure at the end of the year was:

Conservative 23
 Liberal Democrat 12
 Andover Independents 3
 Andover Alliance 2
 Independent 1
 Vacancies 2

Full details of the governance arrangements in place at the Council are contained in the Annual Governance Statement accompanying these accounts.

Council Priorities, Corporate Plan and Performance

Test Valley's Corporate Plan '*Growing Our Potential*' outlines the Council's vision and strategic priorities for the next four years 2019 – 2023. The Corporate Plan focuses on how we can build upon the strengths of the borough so that we can grow the potential of:

- *Town Centres* to adapt and be attractive, vibrant and prosperous places
- *Communities* to be empowered, connected and able to build upon their strengths
- *People* to be able to live well and fulfil their aspirations
- *The Local Environment* for current and future generations

The Corporate Plan is underpinned by a Corporate Action Plan (CAP) which runs for the lifetime of the plan and is updated annually. It shows in detail how the Council is making progress against these priority aims and includes a range of corporate performance indicators.

Each year a review is undertaken to update the CAP to ensure it continues to highlight the significant projects that the Council is taking forward in pursuit of its four corporate priorities.

Annual reports and details of the Corporate Plan are published on the Council website:

[Growing Our Potential - the Corporate Plan 2019-23](#)

Achievements against the Corporate Action Plan

Work has continued on the projects within the CAP over the last year. Given the scale and scope of the projects that form the CAP, it is expected that most projects that feature on the CAP will do so for multiple years.

Headline examples of progress in year one include:

- A new era for Andover saw master planners Hemingway Design and NEW Masterplanning appointed to **develop a masterplan for Andover Town Centre**. Significant public engagement has taken place along with discussions with a number of stakeholders which includes local businesses, Hampshire County Council and other public bodies. The first consultation draft of the master plan has been produced and publicised.
- **Acquisition of the Chantry Centre** to enable aspirations to pursue our redevelopment plans and create an attractive and vibrant town centre
- The construction of the **£1.2m** Town Mills Riverside project is underway. This will become somewhere people can stay, play, picnic and enjoy the river.
- The draft masterplan options for the South of Romsey Town Centre have been developed through a large programme of public engagement. The draft masterplan went out for a second round of consultation, after embedding the citizens' assembly recommendations and public feedback into the plan, and received a further **248 responses**. The South of Romsey Town Centre masterplan has been **shortlisted in the national Planning Awards category** 'Award for Stakeholder Engagement in Planning (Plan Making)'
- TVBC was **one of only three** authorities in the country to be selected to pilot a new programme aimed at innovating democracy by hosting a Citizens Assembly. This enabled **42 randomly selected residents from Romsey & the surrounding area** to put forward a number of recommendations to help shape the masterplan as part of the redevelopment of the south of the town centre.

- TVBC approved the release of **over £607k** towards **8 CIL bids**, including the Plaza Theatre Stage House Rebuild and Access Improvements at Charlton Lakes
- **63** community councillor grants were awarded to the value of **over £42k** and **over 280K** was awarded to **16** projects via the Community Asset Fund, including the Enham Trust and Age Concern.
- There has been a strong community response to the Covid 19 pandemic with **over 1,000 volunteers and more than 50 community groups** providing a range of support. TVBC launched a **£25k grant scheme** for local groups providing community support during the coronavirus pandemic
- TVBC exceeded its affordable housing target for the sixth year in a row. **273** units of affordable housing were delivered in 2019/20 exceeding target by nearly **37%**. In 2019, TVBC ranked **31st out of 326** local authorities for housing delivery
- **65%** of all households who were at risk of homelessness and approached the Council for help, had their homelessness prevented at the initial stages through engagement with the housing team
- **Over 83%** of people who approached the Council and who were experiencing homelessness, or who were threatened with homelessness, engaged in an asset-based assessment with the housing team
- The Council made a successful bid to central government for a further **£103K** to support its partnership work to prevent and relieve rough sleeping in the borough
- The Council also bid successfully for **£37K Private Rented Sector Innovation & Enforcement Grant** from central government, to improve our access to and understanding of local housing data to inform targeted work to improve housing conditions and to enforce statutory licensing for houses in multiple occupancy.
- In 2019/20, **23 Business Incentive grants** were paid out to the value of £17,250 and **13 Independent Retailer grants** were paid out to the value of £11k.
- On 4 September a **climate emergency was declared** by full council and a draft action plan has been produced.
- As part of Project Integra, we have worked with Hampshire County Council on their **behaviour change pilot scheme** to tackle waste recycling contamination and providing an **integrated approach** to waste collection, treatment and disposal.
- TVBC also commenced an innovative **local behaviour change pilot** to tackle contamination rates. Feedback from more than 700 residents, through an online survey and focus groups, was used to inform the design and development of the pilot scheme.
- **18** electric vehicle charging points were installed across Test Valley.
- The authority's annual replacement programme saw **172** trees planted to help regenerate the borough's green spaces and to help the wildlife to flourish.

Financial Performance

The Council monitors its budgets under two major headings: Revenue and Capital. Revenue spending relates to items consumed in the year and is financed from Council Tax, business rates, fees & charges, government grants and other income. Capital spending creates assets with a life of longer than one year and is financed from the sale of assets, government grants, contributions and revenue.

Revenue Outturn for 2019/20

The initial forecast of General Fund revenue requirements began soon after the budget for 2018/19 was approved. A significant range of essential savings / improved income opportunities were identified and included in the budget and this is likely to be required again in the medium term.

The detailed budget was approved by Council on 25th February 2019. The net expenditure forecast for 2019/20 agreed at this stage totalled £11.902M. No draws to or from general reserves were included in the budget.

The actual outturn for 2019/20 reported to Cabinet on 17th June 2020 was £604,000 better than expected. This surplus was transferred to the General Fund Reserve in order to ensure that the Council has the necessary resources in place to manage the significant adverse effect of the Covid-19 pandemic on its budgets.

A summary of the approved budget and final outturn for revenue activities is shown in the following table.

	Approved Budget 2019/20 £'000	Actual 2019/20 £'000	Variance £'000
Service Expenditure (including Investment Property income and expenditure)	14,153	16,226	(2,073)
Corporate Items			
Reversal of capital charges including depreciation	(4,660)	(6,316)	1,656
Investment income, borrowing and MRP	(279)	(408)	129
Non-service related grants	(6,063)	(6,017)	(46)
Business rates levy	2,038	2,001	37
Retention of business rates for renewable energy schemes	(436)	(437)	1
Transfers to Earmarked / Capital reserves	7,149	7,945	(796)
Transfer to General Fund Reserve arising from surplus in year	0	604	(604)
Transfer to / (from) Pension Reserve	0	(1,695)	1,695
Other	0	(1)	1
GENERAL FUND REQUIREMENTS	11,902	11,902	0
Met By			
Locally retained business rates	4,576	4,576	0
Council Tax	7,272	7,272	0
Other Collection Fund	54	54	0
TOTAL REVENUE RESOURCES	11,902	11,902	0

Accounting for Business Rates

Under the accounting arrangements for business rates, the Council retains 40% of the business rates collected; this was estimated in the original estimate to be £21.452M for 2019/20. From this amount the Council was required to pay the government a ‘tariff’ of £16.876M, leaving net budgeted income in the year of £4.576M compared to a baseline of £2.343M.

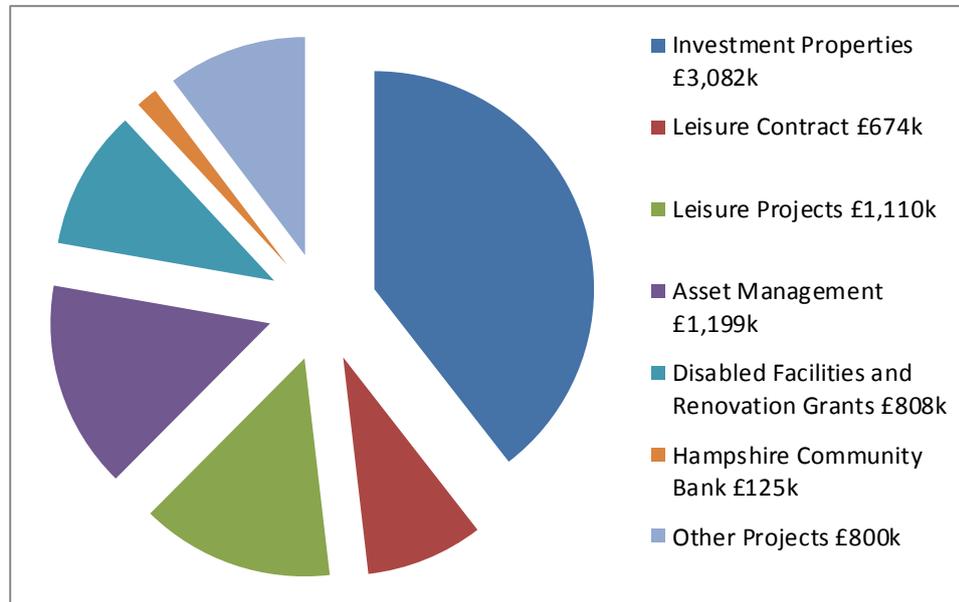
A complicated system of grants in respect of small business rate and other reliefs along with a levy for growth over the baseline figure is also in place. The budget assumed, after taking account of these reliefs and grants, a growth above the baseline of £3.956M resulting in a levy of £1.978M being payable. The actual retained income after taking account of the grants was £6.345M, a growth of £4.002M over the baseline figure. Of this, 50% is payable to the government as a levy on growth, after which the Council will retain a net surplus of £2.001M.

A summary of the position is shown in the following table.

	£'000
Total retained income from business rates	6,345
Baseline	(2,343)
Net growth on business rates	4,002
Levy @ 50% payable to government	(2,001)
Income retained by Test Valley	2,001

Capital Programme

Capital spending for the year totalled £7.798M, as summarised in the following chart:



The Council has invested substantially in capital projects in the year. The most significant were a number of investment properties with a total value of £3.082M.

The Council finances its capital expenditure from a mixture of usable capital receipts, capital grants and contributions, and borrowing. In 2019/20, just 8% came from usable capital receipts (£632,000). This was after the £6.018M proceeds from the sale of the Columbus Quarter on Walworth Business Park which the Council developed in partnership with Kier Property Developments Limited. The Council borrowed £1.55M towards the purchase of a number of investment properties. The remainder of the capital expenditure was funded from contributions

from revenue (£4.11M) and capital grants and contributions (£1.506M). The Council has set aside reserves for the future maintenance of its assets; budgeted asset management costs in 2020/21 and beyond will be funded from these reserves.

Major capital investment is planned over the next financial year as follows:

	2020/21 £'000
Asset Management Projects	3,221
Affordable Housing Projects	810
Disabled Facilities & Renovation Grants	950
Play Areas / Skate Parks	12
Leisure Contract	1,798
Sports & Recreation - Ganger Farm & Picket Twenty	601
Community & Leisure Projects	1,002
Hampshire Community Bank	125
Pocket Park, Town Mill Access & Environmental Enhancement	559
Strategic Purchase	447
Investment Properties	2,185
Other Capital Projects	573
TOTAL	12,283

Financial Position at the Year End

General Fund reserves stood at £2M at 1st April 2019. At the time, this was considered to be a prudent minimum level of general reserves. However, following the UK lockdown on March 23rd 2020 as a result of the Covid-19 pandemic, the Council has faced extreme financial pressures in terms of lost income, deferred income and additional expenditure. It was therefore recommended to transfer the surplus of £604,000 to the General Fund Reserve in order to ensure the Council has the necessary financial resources in place to manage the significant impact on its budgets. The General Fund Reserve stood at £2.604M at 31st March 2020.

In addition to the General Fund balances mentioned above, the Council held earmarked reserves of £24.146M available for specific revenue purposes and capital reserves of £16.761M available to spend on capital schemes.

Valley Housing Limited

On 30th April 2016, Valley Housing Limited, a Housing Development and Management Company which is a wholly owned subsidiary of Test Valley Borough Council was incorporated. Group accounts have not been prepared for the year ended 31st March 2020 as the value of transactions is not considered to be material.

COVID-19 Pandemic

As the situation with the COVID-19 pandemic continues to evolve, the Council is ensuring that essential services to its residents and business communities are protected and delivered as a priority. The Council is working with the Ministry of Housing, Communities and Local Government (MHCLG) to monitor the level of additional cost pressures and reduced income arising from COVID-19, which will impact significantly on the Council's financial position for 2020/21 and future years.

The major impacts on the Council's finances are anticipated to be caused by:

- Reduced income streams;
- Increased costs being incurred to respond to the pandemic;
- National government guidance;
- Approved budget savings not being achieved; and
- Other, as yet, unknown factors.

The Head of Finance & Revenues continues to update the MHCLG data gathering exercise on a monthly basis, and this in turn is used to inform the Council's management team and Councillors of the emerging picture for the Council. It also helped to assess the financial impact on the Council's Medium Term Financial Strategy, which was updated in December 2020.

The statutory position for the Council is to deliver a balanced budget. Even with government support, corrective action will need to be taken to continue to deliver this position and ensure the Council continues to be able to fund the delivery of services. It is hoped that further grants will be made available from the Government, but even with this extra support it is inevitable that the Council will need to draw on its reserves to meet its balanced budget requirement.

Our current forecasts show a net budget gap of just over £1.8M for 2020/21 and the top five areas being impacted are:

- Sport and Leisure activities
- Revenues
- Car Parking
- Investments and commercial lettings
- Planning and Building Control

In addition, the Council has had to deal with the cashflow impacts of deferred rents, Business Rates and Council Tax. General Fund and Treasury cash balances are being kept under review to ensure that this can be managed over the course of the year.

The Council's workforce has responded well to new ways of working with a large proportion of office-based staff working from home. Some staff have been redeployed to assist with the response to the pandemic and, where facilities have experienced an enforced temporary closure, the Council has taken advantage of the Government's Job Retention Scheme and furloughed a small number of staff.

The Council has undertaken a review of its supply chains and these are largely unaffected by the pandemic.

The Council's usable reserves position as at 31st March 2020 is shown in note 28 to the accounts. The Head of Finance & Revenues has reviewed these reserves and is satisfied that in the short to medium term there is no risk to the Council's "going concern" assessment.

The Council has a Covid-19 Recovery Plan with a strategic aim of "restoring the economic and social wellbeing of our communities in Test Valley". Priority will be given to the following areas:

- Economic recovery
- Town centre recovery
- Community recovery

- COVID-19 secure working
- Wellbeing and mental health
- Reopening public spaces
- New ways of working
- Financial recovery
- Green recovery
- Democratic recovery
- Service recovery

Full details of our approach to recovery are set out in the Cabinet report dated 15th July 2020 which is on the Council's website.

Conclusion

For the year under review, the net financial result is pleasing. Due to a continuing drive for efficiency, the Council has been able to perform its services to a high level, and at the same time maintain its reserves at an adequate level to meet all known liabilities. In these circumstances the Council's finances continue to be in a stable and healthy condition, although there will be significant financial challenges in the years to come.

I would like to extend my appreciation to all those that have contributed to the timely production of this year's Statement of Accounts.

C. Whatley FCCA

Head of Finance & Revenues

EXPLANATION OF THE ACCOUNTING STATEMENT

The purpose of the Council's Statement of Accounts is to give interested parties clear information about the Council's finances.

There have been no major changes in accounting policy in 2019/20.

The accounts for 2019/20 consist of the following key statements:

- **The Statement of Responsibilities** declares the respective responsibilities of the Council and the Head of Finance & Revenues for the production of the Statement of Accounts.
- **The Expenditure and Funding Analysis** is a note to the financial statements, rather than a key statement. It shows all income and expenditure incurred by the Council throughout the year under statutory funding provisions and the adjustments that are required to these figures to produce the Comprehensive Income & Expenditure Statement under generally accepted accounting practices.
- **The Comprehensive Income & Expenditure Statement** shows all income and expenditure incurred by the Council throughout the year; it includes day-to-day transactions from running the organisation as well as gains / losses on assets and pension liabilities. The total comprehensive income and expenditure shown represents the total movement in the Council's reserves during the year.
- **The Movement in Reserves Statement** summarises the changes in balances on the Council's reserves in the year. Reserves are classified as either usable or unusable. Usable reserves include the unallocated General Fund Balance, Earmarked Revenue Reserves and the Capital Receipts Reserve. These are the reserves that the Council can apply to future expenditure subject to statutory conditions (e.g. the Capital Receipts Reserve can only be used to finance capital expenditure). Unusable reserves such as the Capital Adjustment Account and Revaluation Reserve generally reflect the timing differences between the purchase and the consumption of economic benefits of assets.
- **The Balance Sheet** shows the financial position of the Council and discloses the assets and liabilities for all Council Services. At the balance sheet date the net worth of the Council was £169.9M.
- **The Cash Flow Statement** summarises the Council's cash transactions for the year.
- **The Collection Fund** records all income from Council Tax and business rates. Expenditure includes payments to central government, Hampshire County Council (HCC), Hampshire Fire & Rescue (HFRA) and the Council's General Fund in respect of business rates' income; and precepts to HCC, HFRA, Hampshire Police and Crime Commissioner, local parish/town councils and the Council's own demand on the Collection Fund in respect of Council Tax. The Collection Fund is not incorporated within the Comprehensive Income & Expenditure Statement as it reflects the statutory requirement for billing authorities to maintain a separate Collection Fund.

The Independent Auditor's Report explains how the Council's auditors, Ernst & Young, plan their audit and the basis on which they provide an opinion on the Council's Statement of Accounts. It also gives the auditor's opinion on the Council's arrangements for securing

economy, efficiency and effectiveness in the use of resources in the year.

The Annual Governance Statement accompanies the Statement of Accounts and explains how the Council ensures that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. It is not covered by the auditor's opinion but is considered by the auditor and reported on by exception in the auditor's report if it is not compliant with proper practice.

The accounts are supported by the notes to the financial statements. These notes include a summary of significant accounting policies, further detail relating to matters in the main financial statements, assumptions made about the future and major estimations made.

STATEMENT OF RESPONSIBILITIES FOR THE STATEMENT OF ACCOUNTS 2019/20

The Council's Responsibilities

The Council is required to:

- make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this Council, that officer is the Head of Finance & Revenues.
- manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets.
- approve the Statement of Accounts

The Head of Finance & Revenues' Responsibilities

The Head of Finance & Revenues is responsible for the preparation of the Council's Statement of Accounts in accordance with proper practices as set out in the CIPFA/LASAAC *Code of Practice on Local Authority Accounting in the United Kingdom* (the Code).

In preparing this Statement of Accounts, the Head of Finance & Revenues has:

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

The Head of Finance & Revenues has also:

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

Certification of the Head of Finance & Revenues

I hereby certify that the Statement of Accounts gives a true and fair view of the financial position of the Council at the accounting date and its income and expenditure for the year ended 31st March, 2020.

Signed Date.....
C Whatley, FCCA, Head of Finance & Revenues

Signed Date.....
Cllr K Hamilton, Chairman of the General Purposes Committee

EXPENDITURE AND FUNDING ANALYSIS YEAR ENDED 31ST MARCH 2020

The Expenditure and Funding Analysis is a note to the financial statements, rather than a key statement. It shows how annual expenditure is used and funded from resources (government grants, council tax and business rates) by the Council in comparison with those resources consumed or earned by the Council in accordance with generally accepted accounting practices. It also shows how this expenditure is allocated for decision making purposes between the Council's services. Income and expenditure accounted for under generally accepted accounting practices is presented more fully in the Comprehensive Income and Expenditure Statement on page 13.

2018/19 Restated - See Note 1.3			2019/20			Note
Net Expenditure Chargeable to the General Fund	Adjustments between the Funding and Accounting Basis	Net Expenditure in the Comprehensive Income and Expenditure Statement	Net Expenditure Chargeable to the General Fund	Adjustments between the Funding and Accounting Basis	Net Expenditure in the Comprehensive Income and Expenditure Statement	
£'000	£'000	£'000	£'000	£'000	£'000	
1,868	50	1,918	687	1,770	2,457	
3,265	1,459	4,724	3,419	1,774	5,193	
1,208	748	1,956	1,491	1,282	2,773	
949	274	1,223	1,065	524	1,589	
720	48	768	709	79	788	
(9,391)	10,544	1,153	(9,332)	10,540	1,208	
1,693	194	1,887	1,719	274	1,993	
(156)	(140)	(296)	(208)	23	(185)	
5,895	1,060	6,955	6,705	(322)	6,383	
2,503	34	2,537	3,172	(731)	2,441	
8,554	14,271	22,825	9,427	15,213	24,640	5
(6,297)	(18,738)	(25,035)	(12,621)	(55,087)	(67,708)	5
2,257	(4,467)	(2,210)	(3,194)	(39,874)	(43,068)	5,8
(25,813)			(23,556)			
2,257			(3,194)			
(23,556)			(26,750)			

2018/19 £'000		2019/20 £'000
(2,000)	General Fund Balance	(2,604)
(21,556)	Earmarked Reserves Balance	(24,146)
(23,556)	Total General Fund	(26,750)

COMPREHENSIVE INCOME & EXPENDITURE STATEMENT YEAR ENDED 31 MARCH 2020

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 to the accounting cost. The reconciliation to the Council Tax position is shown in both the Expenditure and Funding Analysis and the Movement in Reserves Statement.

2018/19 Restated - See Note 1.3		Net Exp.	Services	2019/20		Net Exp.	Note
Exp.	Income £'000	2018/19 £'000		Exp. £'000	Income £'000	2019/20 £'000	
4,098	(2,180)	1,918	Community & Leisure	4,892	(2,435)	2,457	
6,488	(1,764)	4,724	Environmental Service	7,117	(1,924)	5,193	
2,849	(893)	1,956	Housing & Environmental Health	3,701	(928)	2,773	
2,877	(1,654)	1,223	Planning & Building	3,284	(1,695)	1,589	
913	(145)	768	Planning Policy & Economic Development	1,059	(271)	788	
5,445	(4,292)	1,153	Property & Asset Management	7,862	(6,654)	1,208	
2,349	(462)	1,887	Revenues	2,392	(399)	1,993	
25,398	(25,694)	(296)	Benefits	22,652	(22,837)	(185)	
7,616	(661)	6,955	Corporate & Support	7,767	(1,384)	6,383	
3,035	(498)	2,537	Central Costs	3,271	(830)	2,441	
61,068	(38,243)	22,825	Net Cost of Services	63,997	(39,357)	24,640	
			Other Operating Income and Expenditure				
0	(699)	(699)	(Profit) / loss on disposal of Property, Plant & Equipment	0	(380)	(380)	20
1,509	(1,509)	0	Parish Precepts	1,598	(1,598)	0	
			Financing and Investment Income and Expenditure				
0	(595)	(595)	Interest Income	0	(758)	(758)	30
16	0	16	Interest Payable	164	0	164	30
0	(16)	(16)	Impairment Losses / (Gains)	196	0	196	
4,280	(2,800)	1,480	Pension Fund Interest Costs	4,131	(2,814)	1,317	14
2,855	0	2,855	Changes in Fair Value of Investment Properties	0	(41,593)	(41,593)	17
312	(8,880)	(8,568)	Net Investment Property Income	333	(7,706)	(7,373)	17
70,040	(52,742)	17,298	Net Operating Expenditure	70,419	(94,206)	-23,787	
			Taxation and non-specific grant income				
0	(7,195)	(7,195)	Council Tax Income	0	(7,391)	(7,391)	9
18,129	(20,953)	(2,824)	Business Rates Income & Expenditure	18,935	(21,810)	(2,875)	9
0	(5,659)	(5,659)	Non Ringfenced Government Grants	0	(6,017)	(6,017)	9
0	(3,830)	(3,830)	Capital Grants and Contributions	0	(2,998)	(2,998)	9,21
88,169	(90,379)	(2,210)	Surplus on the provision of services	89,354	(132,422)	(43,068)	
			Other comprehensive income and expenditure				
0	(3,061)	(3,061)	Net gains on revaluation of Property, Plant & Equipment	0	(2,076)	(2,076)	16
0	(5,950)	(5,950)	Re-measurement of the net defined benefit pension liability	3,218	0	3,218	14
88,169	(99,390)	(11,221)	Total comprehensive income and expenditure	92,572	(134,498)	(41,926)	

MOVEMENT IN RESERVES STATEMENT YEAR ENDED 31 MARCH 2020

This statement shows the movement in the year on the different reserves held by the Council, analysed into "usable reserves" (i.e. those that can be applied to fund expenditure or local taxation) and "unusable reserves".

The statement shows how the movements in the year of the Council's reserves are broken down between gains and losses incurred in accordance with generally accepted accounting practices and the statutory adjustments required to return to the amounts chargeable to Council Tax for the year. The Net Increase / (Decrease) line shows the statutory General Fund Balance movements in the year following those adjustments.

	General Fund Balance £'000	Capital Receipts Reserve £'000	Capital Grants Unapplied £'000	Total Usable Reserves £'000	Unusable Reserves £'000	Total Authority Reserves £'000	Note
<u>Movements during 2018/19</u>							
Balance as at 31st March 2018	25,813	10,974	1,163	37,950	119,334	157,284	
Total Comprehensive Income & Expenditure	2,210	0	0	2,210	9,011	11,221	
Adjustments between accounting basis and funding basis under regulations	(4,467)	(4,952)	2,301	(7,118)	7,118	0	8
Increase / (Decrease) in Year	(2,257)	(4,952)	2,301	(4,908)	16,129	11,221	28,29
Balance as at 31st March 2019	23,556	6,022	3,464	33,042	135,463	168,505	
<u>Movements during 2019/20</u>							
Total Comprehensive Income & Expenditure	43,068	0	0	43,068	(1,142)	41,926	
Adjustments between accounting basis and funding basis under regulations	(39,874)	5,783	1,492	(32,599)	32,599	0	8
Increase / (Decrease) in Year	3,194	5,783	1,492	10,469	31,457	41,926	28,29
Balance as at 31st March 2020	26,750	11,805	4,956	43,511	166,920	210,431	

2018/19 £'000		2019/20 £'000
2,000	General Fund Balance	2,604
21,556	Earmarked Reserves Balance	24,146
23,556	Total General Fund	26,750

BALANCE SHEET AS AT 31 MARCH 2020

The Balance Sheet summarises the assets and liabilities recognised by the Council as at the Balance Sheet date. The net assets are matched by a combination of usable and unusable reserves. These are shown in more detail in notes 28 and 29.

2018/19			2019/20		Note
£'000	£'000		£'000	£'000	
82,895		Land & Buildings	82,431		16
2,716		Vehicles, Plant & Equipment	3,310		16
9,311		Community Assets	9,573		16
735		Infrastructure Assets	692		16
433		Surplus Assets	427		16
	96,090	Property, Plant & Equipment (PPE)		96,433	
	99,107	Investment Properties		139,815	17
	121	Intangible Assets		89	18
792		Long-Term Debtors	805		30
5,312		Long-Term Investments	5,404		30
	6,104	Long-Term Assets		6,209	
10,562		Cash and Cash Equivalents	10,658		22
40,562		Short-Term Investments	56,346		30
219		Inventories	192		
12,181		Debtors	10,138		23
(2,026)		Less: Impairment Allowance	(1,976)		23
	61,498	Current Assets		75,358	
(29,479)		Creditors	(34,252)		24
(194)		Short-Term Borrowing	(261)		30
(2,460)		Provisions	(3,151)		25
	(32,133)	Current Liabilities		(37,664)	
	230,787	Total Assets less Current Liabilities		280,240	
(5,722)		Long-Term Borrowing	(7,018)		30
(56,560)		Net Liability to Pension Fund	(62,791)		14
	(62,282)	Long-Term Liabilities		(69,809)	
	168,505	Net Assets		210,431	
		Usable Reserves			
2,000		General Fund Balance	2,604		28
21,556		Revenue and Earmarked Reserves	24,146		28
6,022		Capital Receipts Reserve	11,805		28
3,464		Capital Grants Unapplied	4,956		28
	33,042	Total Usable Reserves		43,511	
		Unusable Reserves			
19,996		Revaluation Reserve	21,638		29
172,897		Capital Adjustment Account	209,008		29
7		Deferred Credits	7		29
(699)		Collection Fund Adjustment Account	(771)		29
(178)		Accumulated Absences Account	(171)		29
(56,560)		Pension Fund Reserve	(62,791)		29
	135,463	Total Unusable Reserves		166,920	
	168,505	Total Equity		210,431	

These financial statements replace the unaudited financial statements certified on 17th July 2020.

Signed:..... Date: 10th February 2021

C Whitley, FCCA, Head of Finance & Revenues

CASH FLOW STATEMENT YEAR ENDED 31 MARCH 2020

This statement summarises the movements in the Council's cash transactions. It shows the volume of financial activity that takes place between the Council and its stakeholders.

The Cash Flow Statement is different to the other statements because it is on a cash basis and some of the figures may not agree with other figures in the accounts which are all on an accruals basis (i.e. based on amounts payable and receivable rather than actually paid or received). The bottom section of the statement shows a reconciliation of the movement in Cash and Cash Equivalents in the year to the figures shown in the Balance Sheet.

2018/19			2019/20		Note
£'000	£'000		£'000	£'000	
		<u>Revenue Activities</u>			
	2,210	Net surplus on the provision of services		43,068	
		<u>Adjustments for non-cash transactions</u>			
2,051		Depreciation of PPE / Amortisation of intangibles	2,844		16,18
2,855		Revaluation (Gains) / Losses on Investment Properties	(41,593)		17
(68)		Impairment & Downward Valuations of PPE & intangibles	1,991		16,18
3,990		Pension Fund Transfers (Note (a))	3,013		14
748		Other non-cash items	625		27
	9,576			(33,120)	
	(4,252)	<u>Adjustments in respect of Investing Activities</u>		(3,378)	
		<u>Adjustments for items on an accruals basis</u>			
(603)		(Increase) / Decrease in Debtors	1,623		
(17)		(Increase) / Decrease in Inventories	27		
(1,987)		Increase / (Decrease) in Creditors	4,017		
	(2,607)			5,667	
	4,927	Net Cash Inflow from Operating Activities		12,237	
		<u>Investing Activities</u>			
(39,118)		Purchase of Short-term and Long-term Investments	(62,877)		
49,509		Proceeds from Short-term and Long-term Investments	47,000		
(26,898)		Purchase of Assets	(6,289)		
2,980		Sale of Assets	4,030		
4,632		Other Capital Cash Received	3,697		
	(8,895)	Net Investing Activity Cashflow		(14,439)	
		<u>Financing Activities</u>			
5,900		Cash receipts of long-term borrowing	1,550		
0		Cash payments to reduce outstanding borrowing	(202)		
(9)		Other receipts / (payments) for financing activities	950		27
	5,891	Net Financing Activity Cashflow		2,298	
	1,923	Net Increase / (Decrease) in Cash and Cash Equivalents		96	
	8,639	Cash and Cash Equivalents at the start of the reporting period		10,562	
	10,562	Cash and Cash Equivalents at the end of the reporting period		10,658	

Note (a) - The published accounts for 2018/19 included an incorrect figure for pension fund transfers. The comparative shown here is a correction to last year's figure.

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NOTES TO THE FINANCIAL STATEMENTS

1. Accounting Policies

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

1.2. General Principles

The Statement of Accounts summarises the Council's transactions for the 2019/20 financial year and its position at the year-end of 31 March 2020. The Council is required to prepare an annual Statement of Accounts (by the Accounts and Audit regulations 2015) in accordance with proper accounting practices.

These practices primarily comprise; the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 ('the Code') and the Service Reporting Code of Practice 2019/20 supported by International Financial Reporting Standards (IFRS) and statutory guidance.

The Statement of Accounts has been prepared on a going concern basis. 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.

1.3. Prior Period Adjustments

Prior period adjustments may arise as a result of a change in accounting policy 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 performance.

The Council has made a prior period adjustment in preparing the 2019/20 Statement of Accounts.

- For comparative purposes, the 2018/19 Comprehensive Income & Expenditure Statement and Expenditure and Funding Analysis (and supporting notes) have been restated to reflect a change in the segmental reporting structure of the Council. A new service Planning Policy and Economic Development has been created, with Planning Policy previously under Corporate & Support, and Economic Development under Estates & Economic Development. The remaining part of Estates & Economic Development has been renamed Property and Asset Management. The Balance Sheet, Movement in Reserves Statements and Cash Flow Statement are unaffected by this change.

There are no implications for the General Fund from this change.

1.4. Accruals of Income & Expenditure

Activity is accounted for in the year that it takes place, not simply when cash payments are made or received. In particular:

- Revenue from contracts from service recipients, whether for services or the provision of goods, is accounted for when (or as) the goods or service are transferred to the service recipient in accordance with the performance obligations in the contract.
- Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption, they are carried as inventories on the Balance Sheet.
- Expenses in relation to services provided are recorded as expenditure when the services are received rather than when payments are made.
- Interest receivable on investments is accounted for 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 has been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where 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.

1.5. **Cash and Cash Equivalents**

Cash is represented by cash in hand.

Cash equivalents are deposits with financial institutions payable without penalty or notice, maturing in not more than one day and are readily convertible to known amounts of cash with insignificant risk of change in value.

In the Cash Flow Statement the 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.

1.6. **Provisions, Contingent Liabilities and Contingent Assets**

Provisions

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

Provisions are charged as an expense to the Comprehensive Income & Expenditure Statement in the year that the Council recognises the obligation and are shown at the best estimate of the eventual outcome at the Balance Sheet date.

Payments to settle the obligation are charged against the provision. Any difference between the provision and the actual settlement figure are charged to the Comprehensive Income & Expenditure Statement when the obligation is settled.

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 where a provision would otherwise be made but either it is not probable that an outflow of resources will be required or the amount 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.

1.7. Reserves

The Council sets aside specific and general amounts as reserves for future 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 revenue account in that year to be included in the surplus / deficit on the provision of services in the Comprehensive Income & Expenditure Statement. The reserve is then appropriated back in to 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 benefits and do not represent usable resources to the Council. Transactions with these reserves are explained in the relevant accounting policies below.

1.8. Government Grants and Contributions

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

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

Amounts recognised as due to the Council are not credited to the Comprehensive Income & Expenditure Statement until conditions attached to the grant / 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 / contribution are required to be consumed by the Council as specified, or future economic benefits or service potential must be returned to the transferor.

Monies advanced as grants / contributions for which conditions have not been satisfied are carried in the Balance Sheet as creditors.

When conditions are satisfied, the grant / contribution is credited to the relevant Service line or Taxation and Non-Specific Grant income in the Comprehensive Income & Expenditure Statement.

Where capital grants are credited to the Comprehensive Income & Expenditure Statement, they are reversed out of the General Fund Balance in the Movement in Reserves Statement. When the grant has been applied, it is posted to the Capital Adjustment Account.

Business Improvement District

A business improvement district (BID) scheme applies across Andover Town Centre. The scheme is funded by a BID levy paid by non-domestic ratepayers. The Council acts as an agent under this scheme. Only the following amounts are recognised in the Council's Comprehensive Income & Expenditure Statement:

- BID levy amounts payable on the Council's properties within the BID scheme area are shown as service expenditure under the relevant service.
- BID levy collection costs are shown in the net cost of services under the relevant service.

Community Infrastructure Levy

The Council has elected to charge a Community Infrastructure Levy (CIL). The levy is 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 is used to fund infrastructure projects 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. However, a small proportion of the charges (5% for the Council) may be used to fund revenue expenditure.

1.9. **Employee Benefits**

Benefits Payable During Employment

Short-term employee benefits are those due to be settled within twelve months of the year end. They include such benefits as wages and salaries, paid annual leave and paid sick leave, bonuses and non-monetary benefits (e.g. cars) for current employees and are recognised as an expense for services in the year in which employees render service to the Council.

An accrual is made for the cost of holiday entitlement and accrued flexible working hours (based on an average per employee) 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 the 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 that the absence occurs.

Termination Benefits

Termination benefits are amounts payable as a result of a decision by the Council to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy and are charged on an accruals basis to the appropriate service line in the net cost of services in the Comprehensive Income & Expenditure Statement.

Post-Employment Benefits

The Council's employees are entitled to join the Local Government Pension Scheme administered by Hampshire County Council. This scheme provides defined benefits to

members (retirement lump sums and pensions) earned as employees work for the Council.

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 14 to the core financial statements.

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 standards. In the Movement in Reserves Statement, this means that there are appropriations to and from the Pension Reserve to remove notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund and pensioners. The negative balance that arises on the Pension Reserve thereby measures the beneficial impact to the General Fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits are earned by employees.

1.10. Events after the Balance Sheet Date

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

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

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

1.11. VAT

Income and expenditure excludes any amounts related to VAT to the extent that it is recoverable from HM Revenue & Customs.

1.12. Overheads and Support Services

The cost of overheads and support services are accounted for under two separate headings, Corporate & Support and Central Costs, in the Expenditure & Funding Analysis and the Comprehensive Income & Expenditure Statement as part of the net cost of services. They are not charged to service segments.

1.13. Intangible Assets

Expenditure on non-monetary assets that do not have physical substance but are controlled by the Council (e.g. software licences) is capitalised when it is expected that the future economic benefits will flow to the Council.

Intangible assets are measured initially at cost. The balance is amortised over the useful life of the asset to the relevant service line in the Comprehensive Income & Expenditure Statement to reflect the pattern of consumption of benefits.

Amortisation is not permitted to have an impact on the General Fund Balance. These charges are reversed out of the General Fund balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account.

1.14. Investment Property

Investment properties are those that are used solely to earn rental income and / or 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, based on the amount at which the asset could be exchanged between knowledgeable parties at arm's-length. Investment properties are not depreciated but are revalued annually according to market conditions. Gains and losses on revaluation are posted to the Financing and Investment Income and Expenditure section in the Comprehensive Income & Expenditure Statement. The same treatment is applied to gains / losses on disposal.

Investment properties under construction are measured at fair value once it is possible to measure reliably the fair value of the investment property, and at cost before that date.

Rentals received in respect of leases on investment properties are credited to the financing and investment income section and result in a gain for the General Fund balance. However, revaluation and disposal gains / losses are not permitted to have an impact on the General Fund balance. The gains / 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 sale proceeds) the Capital Receipts Reserve.

1.15. Property, Plant and Equipment

Assets that have physical substance and are held for use in the provision of services, for rental to others or for administrative purposes on a continuing basis are classified as property, plant and equipment (PPE).

Recognition

Expenditure on the acquisition, creation or enhancement of PPE 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 secures but does not add to an asset's potential to deliver future economic benefits (i.e. repairs and maintenance) is charged as an expense when it is incurred.

A de minimis level of £10,000 is applied to capital expenditure. Any expenditure on land, equipment or other chattels below this amount is not recognised 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 basis:

- infrastructure and community assets – depreciated historical cost
- all other assets – fair value, determined as the amount that would be paid for the asset in its existing use (existing use value).

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

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

Assets included in the Balance Sheet at fair value are revalued sufficiently regularly to ensure that their carrying amount is not materially different from their fair value at the year end, but as a minimum every five years. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. (Exceptionally, gains might be credited to the Comprehensive Income & 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 as follows:

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

The Revaluation Reserve contains revaluation gains recognised since 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 as to whether there is any indication that an asset may be impaired. Where indications exist and any possible differences are estimated to be material, the recoverable amount of the asset is estimated and, where this is less than the carrying amount of the asset, an impairment loss is recognised for the shortfall.

Where impairment losses are identified, they are accounted for 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 lines in the Comprehensive Income & Expenditure Statement.

Where an impairment loss is reversed subsequently, the reversal is credited to relevant service lines in the Comprehensive Income & Expenditure Statement, up to the amount

of the original loss, adjusted for depreciation that would be charged if the loss had not been recognised.

Disposals

When an asset is disposed of or decommissioned, the carrying amount of the asset in the Balance Sheet is written off to Other Operating Expenditure line in the Comprehensive Income & 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 & 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. Receipts are 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.

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

Depreciation

Depreciation is provided for on all 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).

Where an 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 £1M and
- The component is at least 20% of the carrying value of the asset and
- The change in depreciation after componentisation is greater than £10,000 per annum.

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.

1.16. Heritage Assets

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

The Council does not have a policy in respect of the purchase, preservation, management and disposal of Heritage Assets.

Heritage assets are either excluded from the Balance Sheet or included within Community Assets, valued at historic cost. The Code requires Heritage Assets to be classified separately on the Balance Sheet and to be valued at fair value. The Council

has not re-stated Heritage Assets in accordance with the Code due to their immaterial overall value. The impact of this is explained in note 19.

1.17. **Charges to Revenue for Non-Current Assets**

Service revenue accounts, support services and trading accounts are debited with the following amounts to record the real cost of holding 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 losses can be written off.
- Amortisation of intangible assets attributable to the service.

The Council is not required to raise Council Tax to cover depreciation, impairment losses, revaluation or amortisation. Depreciation, impairment losses, revaluation and amortisation are therefore replaced in the General Fund Balance by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserve Statement.

1.18. **Revenue Expenditure Funded From Capital Under Statute**

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

1.19. **Leases**

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

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

Criteria for determining whether a lease is finance or operating in nature

A number of factors are considered in determining whether a lease should be classified as finance or operating. Three of these are over-riding, the remainder are considered holistically to assess the nature of a lease.

Leases of land will be considered operating leases unless the land will be permanently impaired as a result of the lease (e.g. the land is used for mining).

Where it is almost certain that the lessee will retain the asset in perpetuity, the lease will be classified as a finance lease.

Where the Council leases a building to a tenant, the building element of the lease will be considered to be operating in nature if the lessee is required to return the building in a repaired condition at the end of the lease.

Factors that indicate a lease might be a finance lease include:

- Where the net present value of lease payments is more than 80% of the asset's purchase price.
- Where the lease period is longer than 75% of the asset's useful life.
- Where there are options to extend the primary lease at rates substantially lower than market rents.
- Where ownership transfers to the lessor at the end of the lease or there are options to buy the asset at the end of the lease term on favourable conditions which are reasonably certain to be taken up.
- Terms included in the lease which penalise the lessee more than the lessor in the event that the lessee cancels the lease.

Council as Lessee – Finance Leases

Assets held under finance leases are recognised on the Balance Sheet at the commencement of the lease at fair 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.

Lease payments are apportioned between;

- a charge for the acquisition of the interest in the asset – 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 & Expenditure Statement).

Assets recognised under finance leases are 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 is not required to raise Council Tax to cover depreciation or revaluation and impairment losses arising on leased assets. Instead, a prudent annual contribution is made from revenue funds towards the deemed capital investment in accordance with statutory requirements. Depreciation, revaluation and impairment losses are therefore substituted by a revenue contribution in the General Fund balance, by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

Council as Lessee – Operating Leases

Rentals paid under operating leases are charged to the Comprehensive Income & Expenditure Statement as an expense of the services benefitting from the use of leased assets. Charges 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 rent-free period at the commencement of the lease).

Council as Lessor – Finance Leases

There are no leases that qualify as finance leases where the Council is the lessor.

Council as Lessor – Operating Leases

Where the Council grants an operating lease over an asset, the asset is retained in the Balance Sheet. Rental income is credited to the Other Operating Expenditure line in the Comprehensive Income & 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).

1.20. Financial Instruments

Financial Liabilities

Financial liabilities are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured at their fair value and subsequently carried at their amortised cost. Annual charges to the financing and investment income and expenditure line in the Comprehensive Income and Expenditure Statement (CIES) for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. The effective rate is the rate that exactly discounts future cash payments over the life of the instrument to the amount at which it was originally recognised.

For most of the borrowings that the Council has, the amount presented in the Balance Sheet is the outstanding principal repayable (plus accrued interest) and interest charged to the Comprehensive Income & Expenditure Statement is the amount payable for the year according to the loan agreement.

Financial Assets

Financial Assets are classified based on a classification and measurement approach that reflects the business model for holding the financial assets and their cashflow characteristics. There are three main classes of financial assets measured at:

- Amortised cost
- Fair value through profit or loss (FVPL), and
- Fair value through other comprehensive income and expenditure (FVOCI).

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

Where the Council makes a soft loan (i.e. At less than market rate or with an interest free period), the loan will be shown in the balance sheet at carrying value rather than amortised value unless the value of the advance is greater than £500,000 or there is significant discounting of interest rates.

Any gains or losses that arise on the derecognition of an asset are credited or debited to the financing and investment income and expenditure line in the CIES.

Expected Credit Loss Model

The Council recognises expected credit losses on all its financial assets held at amortised cost either on a 12-month or lifetime basis. Only lifetime losses are recognised for trade receivables.

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 the 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 Fair Value through Profit or Loss are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured and carried at fair value. Fair value gains and losses are recognised as they arise 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 price – the market price
- Other instruments with fixed and determinable payments – discounted cash flow analysis.

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

- Level 1 inputs – quoted prices (unadjusted) in active markets for identical assets that the authority can access at the measurement date.
- Level 2 inputs – inputs other than quoted prices included within Level 1 that are observable for the 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.

1.21. Inventories

Inventories are included in the Balance Sheet at the lower of cost or net realisable value.

1.22. Fair Value Measurement

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

- In the principal market for the asset or liability, or

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

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

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

The Council uses appropriate valuation techniques for each circumstance, maximising the use of relevant known data and minimising the use of estimates and unknowns. This takes into account the three levels of categories for inputs to valuations for fair value assets:

- Level 1 – quoted prices in active markets for identical assets or liabilities that the Council can access at the measurement date.
- Level 2 – inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3 – unobservable inputs for the asset or liability.

2. Accounting Standards that have been issued but have not yet been adopted

The Code requires the Council to identify Accounting Standards that have been issued but have yet to be adopted. The Council is also required to assess the possible impact that application of the Standards will have when they are applied.

There are no Accounting Standards that have been issued but not yet adopted that would have a material effect on this year's Statement of Accounts were they in effect for the year ended 31st March 2020, nor are they expected to have a material effect on the Statement of Accounts for the year ended 31st March 2021.

3. Critical Judgements in Applying Accounting Policies

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

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

Asset classifications – the Council has made judgements on whether assets are classified as Investment Property or PPE. 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 PPE assets whereas if full market rent is being charged this would indicate that the asset is an Investment Property. The classification determines how revalued amounts are shown in the accounts and whether depreciation is chargeable on the asset.

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

Providing for potential liabilities – the Council has made judgements about the likelihood of pending liabilities and whether a provision should be made or whether there is a contingent liability. The judgements are based on the degree of certainty concerning future and past events and the Council's control over them.

4. Assumptions made about the Future and Other Major Sources of Estimation Uncertainty

The Statement of Accounts contains estimated figures that are based on assumptions made by the 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 materially different from the assumptions and estimates.

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

Item	Uncertainties	Effect if actual results differ from assumptions
Impairment Allowance	The Council has made allowances for doubtful debts of £1.976M in 2019/20 (2018/19 £2.026M) based on what it believes to be a prudent but realistic level.	If collection rates were to deteriorate or improve, a 5% change would require an adjustment to the allowance of £98,800 (2018/19 £101,300).
Pension Liability	Estimation of the net liability to pay pensions depends on a number of complex judgments relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns from pension fund assets. A firm of actuaries is engaged by the pension fund administrator to provide expert advice about the assumptions to be applied.	More information can be found in Note 14 about the sensitivity to changes in assumptions in respect of: <ul style="list-style-type: none"> • The discount rate used • Salary inflation • Rates of increase to pensions in payment • Mortality rates
Provisions	The Council has made a provision of £3.151M in 2019/20 (2018/19 £2.46M) in respect of its share of appeals made by ratepayers for past business rates' costs. It is not certain how many of the appeals will be upheld.	A 10% increase or decrease in the actual number of appeals upheld would result in a change to the provision of £315,100 (2018/19 £246,000).
Property, Plant & Equipment	Due to the effects of Covid-19 on the property market, the Council's valuers have provided valuations on the basis of 'Material Valuation Uncertainty' as per VPS 3 and VPS 10 of the RICS Red Book Global.	Every 1% change in the valuation of land and buildings would require an adjustment of £824,300.
Investment Properties		Every 1% change in the valuation of investment properties would require an adjustment of £1.398M.

5. Note to the Expenditure and Funding Analysis

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

Transactions in 2019/20

Adjustments between Funding and Accounting Basis				
2019/20				
Adjustments from General Fund to arrive at the Comprehensive Income and Expenditure Statement amounts	Adjustments for Capital Purposes (Note a)	Net change for the Pensions Adjustments (Note b)	Other Differences (Note c)	Total Adjustments
	£'000	£'000	£'000	£'000
Community & Leisure	1,389	240	141	1,770
Environmental Service	697	687	390	1,774
Housing & Environmental Health	1,014	268	0	1,282
Planning & Building	147	377	0	524
Planning Policy & Economic Development	0	79	0	79
Property & Asset Management	2,846	316	7,378	10,540
Revenues	0	274	0	274
Benefits	0	0	23	23
Corporate & Support	224	(546)	0	(322)
Central Costs	0	0	(731)	(731)
Net Cost of Services	6,317	1,695	7,201	15,213
Other income and expenditure from the Expenditure and Funding Analysis	(49,269)	1,318	(7,136)	(55,087)
Difference between General Fund surplus or deficit and Comprehensive Income and Expenditure Statement Surplus or Deficit on the Provision of Services	(42,952)	3,013	65	(39,874)

Comparative Transactions for 2018/19

Adjustments between Funding and Accounting Basis				
2018/19 Restated - See Note 1.3				
	Adjustments for Capital Purposes (Note a)	Net change for the Pensions Adjustments (Note b)	Other Differences (Note c)	Total Adjustments
	£'000	£'000	£'000	£'000
Community & Leisure	(357)	172	235	50
Environmental Service	639	479	341	1,459
Housing & Environmental Health	555	193	0	748
Planning & Building	0	274	0	274
Planning Policy & Economic Development	0	49	0	49
Property & Asset Management	1,743	233	8,568	10,544
Revenues	0	194	0	194
Benefits	0	0	(140)	(140)
Corporate & Support	143	916	0	1,059
Central Costs	23	0	11	34
Net Cost of Services	2,746	2,510	9,015	14,271
Other income and expenditure from the Expenditure and Funding Analysis	(13,123)	1,480	(7,095)	(18,738)
Difference between General Fund surplus or deficit and Comprehensive Income and Expenditure Statement Surplus or Deficit on the Provision of Services	(10,377)	3,990	1,920	(4,467)

a) Adjustments for Capital Purposes

This column adds in depreciation and impairment, revaluation gains and losses and revenue expenditure financed by capital under statute in the services lines, and for:

- **Other operating expenditure** – adjusts for capital disposals with a transfer of income on disposal of assets and the amount written off for those assets
- **Financing and investment income and expenditure** – the statutory charges for capital financing i.e. Minimum Revenue Provision and other revenue contributions are deducted from other income and expenditure as these are not chargeable under generally accepted accounting practices.
- **Taxation and non-specific grant income and expenditure** – capital grants are adjusted for income not chargeable under generally accepted accounting practices. Revenue grants are adjusted from those receivable in the year to those receivable without conditions or for conditions which were satisfied throughout the year. The taxation and non-specific grant income and expenditure line is credited with capital grants receivable in the year without conditions or for which conditions were satisfied in the year.

b) Net Change for the Pensions Adjustments

This column shows the net change for the removal of pension contributions and the addition of IAS19 Employee Benefits pension related expenditure and income:

- For **services** – this represents the removal of the employer pension contributions made by the authority under statute and the replacement with current service costs and past service costs.
- For **Financing and investment income and expenditure** – the net interest on the defined benefit liability is charged to the Comprehensive Income & Expenditure Statement.

c) Other differences

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

- For **services** – this represents items not reported to management in the revenue outturn report, such as Section 106 commuted income and the movement in the untaken leave accrual, and amounts which were reported to management but are not included in the net cost of services in the Comprehensive Income & Expenditure Statement.

Committed income from Section 106 grants of £505,000 was received in the year from developers but not included in the report to management. This is transferred to earmarked reserves to pay for future maintenance of community facilities, parks and open spaces under the Section 106 agreements. The amount used to pay for maintenance in the year was £537,000.

- For **Financing and investment income and expenditure** – this column recognises adjustments to the General Fund for net investment property income of £7.373M which is reported in the General Fund in Net Cost of Services.
- For **Taxation and non-specific grant income and expenditure** - this column represents the difference of £72,000 between what is chargeable under statutory regulations for Council Tax and NDR that was projected to be received at the beginning of the year and the income recognised under generally accepted accounting practices in the Code of Practice. This is a timing difference, as any difference will be brought forward in future Surpluses or Deficits on the Collection Fund.

6. Segmental Income

Income received from external customers is analysed on a segmental basis in the following table:

Service	2018/19 Restated Revenues from external customers £'000	2019/20 Revenues from external customers £'000
Community & Leisure	2,119	2,416
Environmental Service	1,742	1,924
Housing & Environmental Health	457	501
Planning & Building	1,654	1,695
Planning Policy & Economic Development	410	34
Property & Asset Management	12,797	14,352
Revenues	207	201
Benefits	959	518
Corporate & Support	616	1,369
Central	145	508
Total income analysed on a segmental basis	21,106	23,518

7. Expenditure and Income analysed by nature

The Council's expenditure and income is analysed in the following table:

Expenditure / Income	2018/19 £'000	2019/20 £'000
Expenditure		
Employee benefits expenses	20,632	21,091
Other service expenses	37,962	37,093
Depreciation, amortisation, impairment	1,983	4,835
Other capital charges	740	1,480
Interest payable	16	164
Precepts and levies	1,509	1,598
Pension fund interest costs	1,480	1,317
Total expenditure	64,322	67,578
Income		
Fees, charges and other service income	(21,106)	(23,518)
Interest and investment income	(595)	(758)
Changes in fair value of investment properties	2,855	(41,593)
Income from council tax and non-domestic rates	(11,528)	(11,864)
Government grants and contributions	(35,459)	(32,533)
(Gain) / loss on the disposal of assets	(699)	(380)
Total income	(66,532)	(110,646)
Surplus on the Provision of Services	(2,210)	(43,068)

8. 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.

Transactions in 2019/20

	General Fund Balance	Capital Receipts Reserve	Capital Grants Unapplied Reserve	Total Usable Reserves	Unusable Reserves	Note
	£'000	£'000	£'000	£'000	£'000	
Adjustments primarily involving the Capital Adjustment Account						
Depreciation of non-current assets	2,801	0	0	2,801	(2,801)	16
Amortisation of intangible assets	43	0	0	43	(43)	18
Impairment of non-current assets	1,991	0	0	1,991	(1,991)	16
Movement in the fair value of investment property	(41,593)	0	0	(41,593)	41,593	17
Profit on disposal of non-current assets	(380)	0	0	(380)	380	20
Revenue expenditure funded from capital under statute	696	(513)	(183)	0	0	29
Statutory provision for the repayment of debt	(187)	0	0	(187)	187	29
Capital grants, contributions and income in relation to donated assets credited to the Cl&ES	0	0	0	0	0	21
Adjustments primarily involving the Capital Receipts Reserve						
Proceeds from disposal of non-current assets	0	6,415	0	6,415	(6,415)	28
Financing of new capital expenditure	(4,648)	(119)	0	(4,767)	4,767	21
Adjustments primarily involving the Capital Grants Unapplied Reserve						
Capital grants credited to Cl&ES for which expenditure has not yet been incurred	(1,675)	0	1,675	0	0	28
Adjustments primarily involving the Pensions Reserve						
Reversal of items relating to retirement benefits charged to the Cl&ES	6,172	0	0	6,172	(6,172)	14
Employer's contribution to pension fund / directly to pensioners	(3,159)	0	0	(3,159)	3,159	14
Adjustments primarily involving the Collection Fund Adjustment Account						
Amount by which Council Tax and Business Rates income credited to the Cl&ES is different from Council Tax and Business Rates income calculated for the year in accordance with statutory requirements.	72	0	0	72	(72)	29
Adjustments primarily involving the Accumulated Absences Account						
Amount by which officer remuneration charged to the Cl&ES on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements.	(7)	0	0	(7)	7	29
	(39,874)	5,783	1,492	(32,599)	32,599	

Comparative Transactions for 2018/19

	General Fund Balance	Capital Receipts Reserve	Capital Grants Unapplied Reserve	Total Usable Reserves	Unusable Reserves	Note
	£'000	£'000	£'000	£'000	£'000	
Adjustments primarily involving the Capital Adjustment Account						
Depreciation of non-current assets	2,005	0	0	2,005	(2,005)	16
Amortisation of intangible assets	46	0	0	46	(46)	18
Impairment of non-current assets	(68)	0	0	(68)	68	16
Movement in the fair value of investment property	2,855	0	0	2,855	(2,855)	17
Loss on disposal of non-current assets	(699)	0	0	(699)	699	20
Revenue expenditure funded from capital under statute	193	(143)	(50)	0	0	29
Impairment of capital loans	23	0	0	23	(23)	29
Capital grants, contributions and income in relation to donated assets credited to the CI&ES	(277)	0	0	(277)	277	21
Adjustments primarily involving the Capital Receipts Reserve						
Proceeds from disposal of non-current assets	0	5,039	0	5,039	(5,039)	28
Financing of new capital expenditure	(12,104)	(9,848)	0	(21,952)	21,952	21
Adjustments primarily involving the Capital Grants Unapplied Reserve						
Capital grants credited to CI&ES for which expenditure has not yet been incurred	(2,351)	0	2,351	0	0	28
Adjustments primarily involving the Pensions Reserve						
Reversal of items relating to retirement benefits charged to the CI&ES	6,820	0	0	6,820	(6,820)	14
Employer's contribution to pension fund / directly to pensioners	(2,830)	0	0	(2,830)	2,830	14
Adjustments primarily involving the Collection Fund Adjustment Account						
Amount by which Council Tax income credited to the CI&ES is different from Council Tax income calculated for the year in accordance with statutory requirements.	1,920	0	0	1,920	(1,920)	29
	(4,467)	(4,952)	2,301	(7,118)	7,118	

9. Taxation and Non-Specific Grant Income

The Council received income from Council Tax and revenue grants from the Ministry of Housing, Communities and Local Government (MHCLG). These are summarised in the following table.

ANNEX 3

Taxation / Non-Ringfenced Grants	Awarding Body	2018/19 £'000	2019/20 £'000
Council Tax Income	Council Taxpayers	7,195	7,391
Revenue Support Grant	MHCLG	56	0
New Homes' Bonus	MHCLG	3,837	3,788
Small Business Rate Relief	MHCLG	1,444	1,511
Transparency Code Set-Up	MHCLG	0	8
First Property Relief	MHCLG	11	0
Local Newspaper Temporary Relief	MHCLG	1	0
'New Empty' Properties Relief	MHCLG	(1)	0
Retail Relief	MHCLG	(1)	0
Discretionary Relief	MHCLG	64	27
Council Tax Family Annex Grant	MHCLG	64	86
Letting Agents Transparency Grant	MHCLG	1	0
Public Houses Relief	MHCLG	19	0
Self Employed Earnings Review Grant	MHCLG	5	0
Rural Rate Relief	MHCLG	23	6
Supporting Small Businesses	MHCLG	7	8
Retail Discount	MHCLG	0	416
Levy Surplus Allocation	MHCLG	0	8
Multiplier Cap	MHCLG	129	159
		12,854	13,408

The net income shown in the Comprehensive Income & Expenditure Statement for business rates is comprised of a number of transactions that are summarised in the table below.

Business Rates Income & Expenditure	2018/19 £'000	2019/20 £'000
Share of income transferred from Collection Fund	20,545	21,810
Tariff paid to government	(16,522)	(16,876)
Share of surplus / (Deficit) on Collection Fund in the year	408	(58)
Levy payable to government in respect of growth in the year	(1,607)	(2,001)
Net Business Rates Income	2,824	2,875

ANNEX 3

Capital Grants and Contributions	Awarding Body	2018/19 £'000	2019/20 £'000
Disabled Facilities Grant	MHCLG	1,221	1,212
Contributions to works on property	Tenants / Other developers	14	31
Plug-in Grant	Government	20	0
Contributions under s106 and CIL agreements / capital grants	Developers	2,575	1,755
		3,830	2,998

Other grants received in the year are shown in the following table.

Specific Grants included in the Net Cost of Services	Awarding Body	2018/19 £'000	2019/20 £'000
Housing Benefit Subsidy	DWP	24,543	22,158
Housing Benefit Administration Subsidy	DWP	258	230
Localising Council Tax Admin Subsidy	MHCLG	90	86
Discretionary Housing Payments	DWP	192	160
Universal Credit New Burdens Grant	DWP	44	0
Welfare Reforms New Burdens Grant	DWP	22	0
Fraud Prevention Grant	DWP	1	0
Business Rates Collection	MHCLG	187	188
Business Rates New Burden Admin Costs Grant	MHCLG	0	9
Property Searches New Burdens Grant	MHCLG	22	0
Disabled Facilities Grant	MHCLG	40	0
Individual Electoral Registration	MHCLG	15	15
Flexible Homelessness Support Grant	MHCLG	229	201
Preventing Homelessness Grant	MHCLG	48	32
Private Rented Sector Access Grant	MHCLG	115	100
H-CLIC New Burdens Grant	MHCLG	3	0
Rapid Rehousing Pathway Grant	MHCLG	0	49
Rough Sleepers Initiative Grant	MHCLG	0	45
Local Authorities Parks Improvement Grant	MHCLG	19	0
Clean Up Grant	MHCLG	22	0
New Forest Mitigation	MHCLG	78	173
Transparency Code Set-Up	MHCLG	8	0
Self and Custom Build Register New Burden Grant	MHCLG	30	15
Neighbourhood Planning Grants	MHCLG	0	40
Brewery Improvement Grant	MHCLG	0	14
Brown Field Grant	MHCLG	4	3
		25,970	23,518

10. Special Expenses

Income from the special Council Tax Levy which applies in the Andover Town Council area was £346,800 in 2019/20 (£296,600 – 2018/19).

11. External Audit Costs

The Council incurred the following fees in relation to external audit and inspection.

Class of Work	2018/19 £'000	2019/20 £'000
External Audit Fees	45	41
Certification of Grants Claim and Returns	8	20
Public Sector Audit Authority refund	0	(5)
	53	56

12. Members' Allowances

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

	2018/19 £'000	2019/20 £'000
Allowances	455	408
Expenses	14	11
Total Members' Allowances	469	419

13. Officers' Remuneration and Termination Benefits

The number of employees whose remuneration, including termination benefits but excluding pension contributions, was £50,000 or more in bands of £5,000 in 2019/20 was:-

Remuneration Band	2018/19 Number of Employees	2019/20 Number of Employees
£50,000 - £54,999	7	12
£55,000 - £59,999	2	3
£60,000 - £64,999	4	2
£65,000 - £69,999	1	4
£70,000 - £74,999	2	0
£75,000 - £79,999	1	3
£80,000 - £84,999	5	3
£85,000 - £89,999	0	3
£90,000 - £104,999	0	0
£105,000 - £109,999	1	0
£110,000 - £114,999	1	2
£115,000 - £134,999	0	0
£130,000 - £134,999	1	0
£135,000 - £149,999	0	0
£150,000 - £154,999	0	1

The following table sets out the remuneration of senior officers in the year. A senior officer is described as 'a person who has responsibility for the management of the Council to the extent that the person has power to direct or control the major activities

of the body, whether solely or collectively with other persons.’ For the purposes of these accounts, Test Valley Borough Council has determined that senior officers are those included in the Officers’ Management Team.

The ‘Total Remuneration excluding pension contributions’ of the following officers is included in the pay bandings in the previous table.

Post	Salary (Including Fees and Allowances)		Car Allowance and Other Expenses		Total Remuneration Excluding Pension Contributions		Pension Contributions		Total Remuneration Including Pension Contributions	
	18/19 £'000	19/20 £'000	18/19 £'000	19/20 £'000	18/19 £'000	19/20 £'000	18/19 £'000	19/20 £'000	18/19 £'000	19/20 £'000
Chief Executive - Roger Tetstall - Note (a)	124	150	8	8	132	158	19	21	151	179
Corporate Director	103	107	7	6	110	113	16	17	126	130
Corporate Director	103	107	6	5	109	112	16	17	125	129
Head of Community & Leisure	79	81	5	4	84	85	12	13	96	98
Head of Environmental Services	79	82	5	5	84	87	12	13	96	100
Head of Property & Asset Management	79	82	4	4	83	86	12	13	95	99
Head of Finance	79	82	5	5	84	87	12	13	96	100
Head of Housing & Environmental Health	75	81	4	4	79	85	11	13	90	98
Head of IT - Note (b)	20	64	1	3	21	67	0	10	21	77
Head of Legal & Democratic	70	74	4	4	74	78	0	3	74	81
Head of Planning & Building	79	81	4	4	83	85	12	13	95	98
Head of Planning Policy & Economic Development	64	74	4	4	68	78	10	12	78	90
Acting Head of Revenues - Benefits & Customer Services - Note (c)	37	11	2	0	39	11	5	1	44	12
Acting Head of Revenues - Local Taxation / Head of Revenues - Note (c)	40	68	2	3	42	71	5	11	47	82

Note (a) – The total remuneration of the Chief Executive includes both a salary for work carried out as Head of Paid Service for the Council and also fees payable as the Local Returning Officer for elections held in the year. Payments as returning officer in 2019/20 were £24,700 (2018/19 £NIL).

Note (b) – The previous Head of IT left part way through 2018/19 with the new Head of IT starting part way through 2019/20. The Council shared the costs with Winchester City Council and received £42,600 as a contribution towards the employment costs of the postholder (2018/19 £10,100).

Note (c) – During 2018/19, the Head of Revenues post was split into two Acting Head of Revenues posts. Partway through 2019/20, the Acting Head of Revenues – Benefits & Customer Services left and the Acting Head of Revenues – Local Taxation became the fulltime Head of Revenues. Whilst in the Acting Head of Revenues posts, the officers in these posts also had non-senior officer roles for the remainder of their time - the table above includes the costs for the two Senior Officer posts only.

The number of exit packages and total cost per band are set out in the following table.

Exit Package Band	Number of Redundancies		Number of Other Departures		Total Cost of Exit Packages by Band	
	2018/19	2019/20	2018/19	2019/20	2018/19 £'000	2019/20 £'000
£0 - £20,000	2	0	2	0	28	0
£20,001 - £40,000	0	0	0	0	0	0
Total	2	0	2	0	28	0

All the costs above were charged to the Comprehensive Income & Expenditure Statement in the year.

14. Defined Benefit Pension Scheme

As part of the terms and conditions of employment of its officers, the Council contributes 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 and this needs to be disclosed at the time that employees earn their future entitlement.

The Council participates in the Local Government Pension Scheme, administered by Hampshire County Council – this is a funded defined benefit scheme with benefits up to 31st March 2014 being linked to final salary and benefits after this date based on a Career Average Revalued Earnings scheme, meaning that the Council and its employees pay contributions into a fund, calculated at a level estimated to balance the pensions' liabilities with investment assets.

The accounts recognise the cost of retirement benefits in the Net Cost of Services when they are earned by employees, rather than when the benefits are eventually paid as pensions. However, the charge made against the Council Tax is based on cash payable in the year, so the real cost of retirement benefits is reversed out of the General Fund in the Movement in Reserves Statement.

The following transactions have been included in the Comprehensive Income & Expenditure Statement and Movement in Reserves Statement during the year:

<u>Comprehensive Income & Expenditure Statement</u>	2018/19 £'000	2019/20 £'000
<u>Cost of Services</u>		
Current Service Costs	3,910	5,048
Past Service Costs	1,620	0
Unfunded Benefits Paid Out	(190)	(193)
<u>Financing & Investment Income & Expenditure</u>		
Interest Cost	4,280	4,131
Interest Income	(2,800)	(2,814)
Total amount included in the Surplus on Provision of Services	6,820	6,172
<u>Other Comprehensive Income & Expenditure</u>		
Actuarial (gains) / losses due to change in financial assumptions	8,680	(4,195)
Actuarial gains due to demographic assumption changes	(7,190)	(4,273)
Experience losses on liabilities	300	5,742
Remeasurement (gains) / losses on assets	(7,740)	5,944
Total amount charged to the Comprehensive Income & Expenditure Statement	870	9,390
<u>Movement In Reserves Statement</u>		
Reversal of net charges made to the deficit on the provision of services in accordance with the Code	(6,820)	(6,172)
Actual employer's contributions payable	2,830	3,159
Total Amount included in the Movement in Reserves Statement (note 8)	(3,990)	(3,013)

In previous years, the Council awarded discretionary post-retirement benefits upon early retirement. This is an unfunded defined benefit arrangement, meaning that no assets exist in the pension fund to meet the ongoing liabilities.

Following the McCloud judgement in 2019, the Government Actuary's Department (GAD), under the instruction of the LGPS Advisory Board (England & Wales), were asked to calculate the 'worst-case' scenario impact at LGPS scheme level. The additional 'McCloud' liability of £1.62M is shown as a Past Service Cost in 2018/19.

The 2019/20 figures above allow for the impact of the McCloud judgement with any change in the allowance over the period treated as an experience item through Other Comprehensive Income.

The 19/20 figures also allow for full pension increases to be paid on Guaranteed Minimum Pensions to individuals reaching State Pension Age after 6th April 2016. Any increase in liability has been charges through Other Comprehensive Income.

The Council contributes to the Pension Fund at a common rate applicable to a group of employees which is set having regard to the assets and liabilities of the group as a whole. In 2019/20 the rate was 16.1% plus a fixed sum contribution of £1.012M (2018/19 15.1% plus £929,900 fixed sum contribution).

It is forecast that pension contributions payable by the employer in 2020/21 in respect of regular contributions will amount to £2.501M and in respect of unfunded liabilities will amount to £196,000.

The allowance for administration expenses included in the Current Service Cost is £41,000 (2018/19 £40,000).

Assets & Liabilities in relation to retirement benefits

The following tables show the Council's liabilities to the Pension Fund and its share of the Fund's assets at the year end. The net liability at 31st March 2020 was £62.791M (2018/19 - £56.56M).

Liabilities	2018/19 £'000	2019/20 £'000
Opening present value of funded liabilities	163,000	170,750
Current Service Cost	3,910	5,048
Interest Cost	4,190	4,052
Contributions by Participants	850	911
Actuarial (gain) / loss on liabilities due to change in financial assumptions	8,580	(4,161)
Actuarial gain on liabilities due to change in demographic assumptions	(7,050)	(4,218)
Experience losses on liabilities	290	6,044
Net benefits paid out	(4,640)	(4,820)
Past service cost	1,620	0
Closing present value of funded liabilities	170,750	173,606
Opening present value of unfunded liabilities	3,530	3,400
Interest Cost	90	79
Actuarial (gain) / loss on liabilities due to change in financial assumptions	100	(34)
Actuarial gains on liabilities due to change in demographic assumptions	(140)	(55)
Experience (gains) / losses on liabilities	10	(302)
Net benefits paid out	(190)	(193)
Closing present value of unfunded liabilities	3,400	2,895
Total present value of scheme liabilities	174,150	176,501

Assets	2018/19 £'000	2019/20 £'000
Opening fair value of assets	108,010	117,590
Interest income on assets	2,800	2,814
Actuarial gain / (loss) on assets	7,740	(5,944)
Contributions by the employer	2,830	3,159
Contributions by participants	850	911
Net benefits paid out	(4,640)	(4,820)
Closing fair value of assets	117,590	113,710

The expected return on scheme assets is determined by considering the expected returns available on the assets underlying the current investment policy. Expected yields on fixed interest investments are based on gross redemption yields as at the Balance Sheet date. Expected returns on equity investments reflect long-term real rates of return experienced in the respective markets.

The actual return on assets in the year is shown in the following table.

Assets	2018/19	2019/20
	£'000	£'000
Interest income on assets	2,800	2,814
Actuarial gain / (loss) on assets	7,740	(5,944)
Actual return on assets	10,540	(3,130)

Basis for estimating assets and liabilities

Liabilities have been assessed on an actuarial basis using the projected unit credit method, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels, etc. The Fund's liabilities have been assessed by an independent firm of actuaries, based on the latest full valuation of the scheme carried out as at 31 March 2019 and a duration of liabilities of 20.0 years.

The principal assumptions used by the actuary were:

	2018/19	2019/20
Discount rate for funded liabilities	2.4%	2.3%
Discount rate for unfunded liabilities	2.4%	2.3%
Rate of Inflation - CPI (funded)	2.2%	2.0%
Rate of Inflation - CPI (unfunded)	2.2%	2.0%
Rate of increase in salaries	3.7%	3.0%
Rate of increase in pensions in payment	2.2%	2.0%
Rate of increase in pensions in deferment	2.2%	2.0%
Mortality Assumptions		
Longevity at 65 for current pensioners (years)		
Men	23.3	23.0
Women	26.1	25.5

It is assumed that each member will surrender pension on retirement, such that the total cash received (including any accrued lump sum from pre-2008 service) is 70% of the permitted maximum.

The proportions of total assets held in each asset type, shown below, reflect the proportions held by the Fund as a whole at 31st March 2020.

	2018/19	2019/20
Equities	60.4%	52.7%
Bonds	27.9%	21.8%
Property	7.6%	7.3%
Other	4.1%	18.2%
Total	100.0%	100.0%

The figures in this note are sensitive to the assumptions used. The approximate impact of changing the key assumptions on the present value of the funded defined benefit obligation as at 31st March 2020 and the projected service cost for the year ending 31st March 2021 is set out in the following table. In each case, only the assumption mentioned is altered; all other assumptions remain the same.

Discount rate		
Adjustment to rate	+0.1% pa	-0.1% pa
Present value of total obligation (£M)	170.17	177.11
% change in present value of total obligation	-2.0%	2.0%
Projected service cost (£M)	4.75	5.11
Approx % change in projected service cost	-3.5%	3.7%
Rate of increase in salaries		
Adjustment to salary increase rate	+0.1% pa	-0.1% pa
Present value of total obligation (£M)	173.92	173.30
% change in present value of obligation	0.2%	-0.2%
Projected service cost (£M)	4.93	4.93
Approx % change in projected service cost	0.0%	0.0%
Rate of increase to pensions in payment		
Adjustment to pension rate	+0.1% pa	-0.1% pa
Present value of total obligation (£M)	176.87	170.41
% change in present value of obligation	1.9%	-1.8%
Projected service cost (£M)	5.11	4.75
Approx % change in projected service cost	3.7%	-3.5%
Post retirement mortality assumptions (follow pattern of person one year older or younger)		
Adjustment to pension rate	-1 year	+1 year
Present value of total obligation (£M)	179.08	168.18
% change in present value of obligation	3.2%	-3.1%
Projected service cost (£M)	5.11	4.74
Approx % change in projected service cost	3.8%	-3.7%

15. Leases

Operating Leases

The Council leases out land and property under operating leases for a number of purposes. These include generation of income from investment properties and for the provision of recreational facilities.

The future minimum lease rentals receivable under non-cancellable leases in future years are shown in the table below.

	2018/19 £'000	2019/20 £'000
Receivable within one year	8,996	8,813
Receivable within one to five years	32,306	31,594
Receivable after five years	421,050	420,876
Total minimum lease rentals receivable	462,352	461,283

The minimum lease payments receivable do not include rents that are contingent on performance or based on a percentage of turnover.

In 2019/20 the Council recognised income from contingent rents of £59,000 (2018/19 - £597,000).

16. Property, Plant & Equipment (PPE)

These are tangible assets which are held or used in the production or supply of goods and services, for rental to others, or for administrative purposes, and are expected to be used during more than one period.

They are further classified into:

- Operational assets
 - Land & buildings (e.g. offices and car parks)
 - Vehicles, Plant & Equipment
 - Infrastructure assets (e.g. footpaths and cycle ways)
 - Community assets (e.g. parks and open spaces); and
- Non-Operational assets
 - Surplus assets (i.e. assets that are not being used to deliver services, but which do not meet the criteria to be classified as either investment properties or assets held for sale)

The following table shows the movement in balances of items of property, plant and equipment in the year.

2019/20	Land & Buildings	Vehicles, Plant & Equipment	Infra structure	Community	Surplus Assets	Total
Cost / Valuation	£'000	£'000	£'000	£'000	£'000	£'000
Historic Cost b/f	71,775	7,374	902	10,944	559	91,554
Revaluation Increases shown in the Revaluation Reserve b/f	20,277	0	54	0	0	20,331
Revaluation Decreases shown in the CI&ES b/f	(7,947)	(81)	(16)	(923)	(107)	(9,074)
Additions	1,225	1,426	0	426	0	3,077
Revaluations	2,076	0	0	0	0	2,076
Disposals - Historic Cost	0	(18)	0	0	0	(18)
Reverse depreciation on disposed / revalued assets	(1,326)	(752)	0	0	0	(2,078)
Impairments in year	(1,991)	0	0	0	0	(1,991)
Cost / Valuation at 31st March 2020	84,089	7,949	940	10,447	452	103,877
Depreciation						
Historic Cost Depreciation b/f	(904)	(4,577)	(173)	(710)	(19)	(6,383)
Depreciation on Revaluations b/f	(306)	0	(32)	0	0	(338)
Charge in year - Historic Cost	(1,341)	(814)	(35)	(164)	(6)	(2,360)
Charge in year - Revalued Amounts	(433)	0	(8)	0	0	(441)
Reverse depreciation on disposed / revalued assets	1,326	752	0	0	0	2,078
Depreciation at 31st March 2020	(1,658)	(4,639)	(248)	(874)	(25)	(7,444)
Net Book Value at 31st March 2020	82,431	3,310	692	9,573	427	96,433
Net Book Value at 31st March 2019	82,895	2,716	735	9,311	433	96,090

Comparative Information for 2018/19

2018/19	Land & Buildings	Vehicles, Plant & Equipment	Infra structure	Community	Surplus Assets	Asset Under Construction	Total
Cost / Valuation	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Historic Cost b/f	42,439	6,714	902	9,462	559	4618	64,694
Revaluation Increases shown in the Revaluation Reserve b/f	17,410	0	54	0	0		17,464
Revaluation Decreases shown in the CI&ES b/f	(8,015)	(81)	(16)	(923)	(107)	0	(9,142)
Additions	9,401	1,046	0	1,498	0	11,312	23,257
Reclassification	20,582	0	0	0	0	(15,930)	4,652
Revaluations	3,061	0	0	0	0	0	3,061
Reverse depreciation on disposed / revalued assets	(841)	(386)	0	(16)	0	0	(1,243)
Impairments in year	68	0	0	0	0	0	68
Cost / Valuation at 31st March 2019	84,105	7,293	940	10,021	452	0	102,811
Depreciation							
Historic Cost Depreciation b/f	(765)	(4,175)	(138)	(601)	(13)	0	(5,692)
Depreciation on Revaluations b/f	(243)	0	(24)	0	0	0	(267)
Charge in year - Historic Cost	(786)	(788)	(35)	(125)	(6)	0	(1,740)
Charge in year - Revalued Amounts	(257)	0	(8)	0	0	0	(265)
Reverse depreciation on disposed / revalued assets	841	386	0	16	0	0	1,243
Depreciation at 31st March 2019	(1,210)	(4,577)	(205)	(710)	(19)	0	(6,721)
Net Book Value at 31st March 2019	82,895	2,716	735	9,311	433	0	96,090
Net Book Value at 31st March 2018	50,826	2,458	778	7,938	439	4,618	67,057

Depreciation is charged based on the following assumed useful economic lives

- Land – Not depreciated
- Buildings – 10 to 60 years
- Vehicles – 3 to 7 years
- Plant & Equipment – 3 to 15 years
- Infrastructure Assets – 10 to 30 years

The impairments shown above are due to changes in the market value of assets as a result of current market conditions or as a result of changes to lease or other conditions which have altered an asset's carrying value. No assets were materially impaired as a result of structural damage.

The following table shows, for each class of PPE asset, the value of assets based on their respective methods of valuation. Where assets are carried at revalued amounts, the value is shown based on the year of the most recent revaluation.

	Cost	Depreciated Cost	Reval 2015/16	Reval 2016/17	Reval 2017/18	Reval 2018/19	Reval 2019/20	Total value of PPE
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Land and Buildings	251	0	122	2,193	30,968	21,192	27,705	82,431
Vehicles, Plant & Equipment	1,425	1,885	0	0	0	0	0	3,310
Infrastructure	104	588	0	0	0	0	0	692
Community	6,623	2,950	0	0	0	0	0	9,573
Surplus Assets	0	0	427	0	0	0	0	427
Total PPE Assets	8,403	5,423	549	2,193	30,968	21,192	27,705	96,433

The Council carries out a rolling programme of valuations that ensures all PPE assets are valued at least once every five years. Revaluations in 2019/20 were carried out by the Council's internal RICS registered valuer and an external valuer, Vail Williams. All revaluations were carried out as at 31st January 2019 and reviewed at 31st March 2019 to ensure that there were no material changes.

The majority of information for PPE valuations comes from assessing active markets for similar properties. However, there is still some need for estimation as no two properties can be treated the same. The Council's valuers make assumptions on certain areas including the asset's useful remaining life and degree of specialism in calculating the asset's value for the accounts.

Surplus assets are measured at fair value.

At the 31st March 2020 contractual commitments on existing capital schemes totalled £2.598M (2018/19 £2.714M). The most significant item is £1.798M in relation to the redevelopment of the Borough's leisure facilities.

17. Investment Properties

The following items of income and expense have been accounted for in the Financing and Investment Income and Expenditure line in the Comprehensive Income & Expenditure Statement.

	2018/19	2019/20
	£'000	£'000
Rental income from Investment Property	8,880	7,706
Investment Property direct costs	(312)	(333)
Net Investment Property income	8,568	7,373

There are no restrictions on the Council's ability to realise the value inherent in its investment property portfolio or in the Council's right to the remittance of income and the proceeds of disposal.

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

	2018/19 £'000	2019/20 £'000
Balance at start of year	106,836	99,107
Purchase of new property	989	2,109
Expenditure on existing property	55	7
Expenditure on property under construction	1,905	966
Reclassification to Property, Plant & Equipment	(4,652)	0
Net changes in fair value of property	(2,855)	41,593
Disposals	(3,171)	(3,967)
Balance at end of year	99,107	139,815

On 19th June 2019, the Council completed the sale the Columbus Quarter on Walworth Business Park for £7.934M which the Council developed in 50:50 partnership with Kier Property Developments Limited. The disposal value in the table above represents the Council's 50% share.

Fair Value Hierarchy and Valuation Techniques

The Council's investment property portfolio has been assessed as Level 2 for valuation purposes (see Note 1.22 for an explanation of Fair Value levels).

The fair value of the investment property portfolio has been measured using the investment method of valuation. Valuations have taken into account existing lease terms and rentals from the tenancy schedule, research into market evidence, market rentals and yields. Changes in yields have led to a material increase in the valuation of some of the Council's investment properties.

In estimating the fair value of the Council's investment properties, the highest and best use of the properties is deemed to be their current use.

Investment property under construction is measured at cost.

There has been no change in the valuation techniques used during the year for investment properties.

The fair value of the Council's investment property is measured annually at each reporting date. All valuations are carried out internally by the Council's RICS registered valuer, or an external valuer, Vail Williams, in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors.

18. Intangible Assets

Intangible Assets represent the value of development costs and software licences for computer programmes used and the Council's right to hold markets in Andover Town Centre.

Market rights are not amortised as they are considered to have a life longer than 50 years; however a periodic impairment review is carried out on this asset to ensure the carrying value is prudent.

Software licences are amortised over their estimated useful economic life on a straight line basis.

The following table summarises the movement in balances for intangible assets in the year.

	Software Licences £'000	Market Rights £'000	Total £'000
Cost or Valuation			
Cost / Fair Value b/f	800	57	857
Additions	11	0	11
Cost / Valuation at 31st March 2020	811	57	868
Amortisation			
Amortisation of Historic Cost b/f	(736)	0	(736)
Charge for the year	(43)		(43)
Amortisation at 31st March 2020	(779)	0	(779)
Net Book Value as at 31st March 2020	32	57	89
Net Book Value as at 31st March 2019	64	57	121

Comparative information for 2018/19

	Software Licences £'000	Market Rights £'000	Total £'000
Cost or Valuation			
Cost / Fair Value b/f	773	57	830
Additions	27	0	27
Cost / Valuation at 31st March 2019	800	57	857
Amortisation			
Amortisation of Historic Cost b/f	(690)	0	(690)
Charge for the year	(46)	0	(46)
Amortisation at 31st March 2019	(736)	0	(736)
Net Book Value as at 31st March 2019	64	57	121
Net Book Value as at 31st March 2018	83	57	140

19. Heritage Assets

The Council holds a number of heritage assets. Some of these are carried at historical cost and others are not included on the Balance Sheet. The total estimated value of Heritage Assets at the balance sheet date is shown in the table below split according to their treatment in the Balance Sheet.

	Carrying Value	Fair Value	Carrying Value	Fair Value
	2018/19 £'000	2018/19 £'000	2019/20 £'000	2019/20 £'000
Included in Community Assets	298	473	352	527
Not included in the Balance Sheet	0	190	0	190
Total	298	663	352	717

The most significant Heritage Assets owned by the Council are the silver maces which form part of the Council's civic regalia. Other Heritage Assets include the war memorials in Andover and Romsey, a Japanese cannon in Romsey War Memorial Park and various pieces of public art.

FRS30 (Heritage Assets) requires that, where material, Heritage Assets be shown at valuation as a separate category of non-current asset on the Balance Sheet. The total estimated value of Heritage Assets is not material; therefore the Council has elected not to re-state the accounts to the extent required by the Standard.

20. **Profit on Disposal of Assets**

During the year, the Council made a profit on the disposal of fixed assets of £380,000 (2018/19 net profit of £699,000). An analysis of this profit is shown in the following table.

	2018/19 £'000	2019/20 £'000
Right To Buy Contributions	699	353
Net profit on disposal of property, plant & equipment	0	27
Total Profit on Disposal of Assets	699	380

21. **Capital Expenditure and Financing**

Total Capital Expenditure to be financed in 2019/20 amounted to £7.798M. This can be analysed as expenditure on new assets (£6.17M), revenue expenditure funded from capital under statute (£1.481M) and expenditure classified as financial instruments (£147,000).

	2018/19 £'000	2019/20 £'000
Opening Capital Financing Requirement	(678)	5,222
Capital Expenditure		
Property, Plant & Equipment	23,257	3,077
Investment Property	2,949	3,082
Intangible Assets	27	11
Revenue Expenditure Funded from Capital Under Statute	739	1,481
Capital loan	1,895	22
Equity investment	0	125
Sources of Finance		
Capital Receipts	(9,991)	(632)
Government Grants and Other Contributions	(1,527)	(1,506)
Contributions from Revenue / Reserves	(11,449)	(4,110)
Movement in Minimum Revenue Provision	0	(187)
Closing Capital Financing Requirement	5,222	6,585

The movement in the Capital Financing Requirement represents an increase in the underlying need to borrow in the year in order to fund the capital expenditure which was met with a loan of £1.550M from the Public Works Loan Board (PWLB) less the movement in the minimum revenue provision of £187,000.

The Government Grants and Other Contributions line shown in the previous table represents the total 'Capital Grants and Contributions' figure per the Comprehensive Income & Expenditure Statement less the net transfer to the capital grants unapplied reserve of £1.492M.

Total capital expenditure has been analysed on a service basis in the following table:

	2019/20 Long-Term Assets £'000	2019/20 Revenue Expenditure Funded From Capital £'000	2019/20 Total £'000
Community & Leisure	1,434	549	1,983
Environmental	651	0	651
Property & Asset Management	3,752	147	3,899
Housing & Env. Health	0	785	785
IT	333	0	333
Total Expenditure	6,170	1,481	7,651

The table above excludes the capital expenditure on financial instruments which are included in note 30.

22. Cash and Cash Equivalents

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

	2018/19 £'000	2019/20 £'000
Cash held by the Council	5	5
Bank Current Accounts	7,949	9,528
Short-term deposits	2,608	1,125
Total Cash & Cash Equivalents	10,562	10,658

23. Analysis of Debtors

	2018/19 £'000	2019/20		Net Allowance £'000
		Debtor £'000	Impairment Allowance £'000	
Central Government Bodies	2,759	1,637	0	1,637
Sundry Debtors	7,042	7,495	(1,307)	6,188
Collection Fund	283	865	(596)	269
Housing	7	63	(56)	7
Car Leasing and Loans	64	78	(17)	61
Total Debtors	10,155	10,138	(1,976)	8,162

Included within car leasing and loans in the previous table are loans to employees for vehicle purchases. At 31st March 2020, £68,000 (2018/19 - £65,000) was outstanding.

24. Analysis of Creditors

	2018/19 £'000	2019/20 £'000
Sundry Creditors	5,737	9,271
Collection Fund	3,934	4,751
Central Government	2,860	2,517
Section 106 Balances	16,770	17,542
Compensated Absences Accrual	178	171
Total Creditors	29,479	34,252

The Collection Fund balances relate to Council Tax and Business Rates. There are two elements. The first is the Council's share of payments from taxpayers in respect of 2020/21 that have been received before the end of 2019/20. The second is the balance of the cash that is owed to the other preceptors on the Collection Fund in respect of the movements on the Collection Fund in the year. For more details on the Collection Fund, please see pages 71 to 74.

The Collection Fund balances are shown in the following table.

	2018/19 £'000	2019/20 £'000
Council's share of Council Tax receipts in advance	97	104
Other preceptors' share of Council Tax movement	1,006	1,007
Council's share of Business Rates' receipts in advance	264	198
Other preceptors' share of Business Rates movement	2,567	3,442
Total Collection Fund balances	3,934	4,751

Section 106 balances relate to contributions made by developers as part of certain planning agreements. These sums are included as creditors because many contributions have time conditions within which expenditure must be made.

The section 106 balances are comprised of the following types of contribution.

	2018/19 £'000	2019/20 £'000
Open Spaces / Recreation	7,480	8,186
Highways / Cycle Routes / Green Travel	3,929	3,360
Affordable Housing	1,062	1,591
Education & Skills' Development	305	212
Public Art	356	297
Community Facilities	3,314	3,555
Other	324	341
Total Section 106 balances	16,770	17,542

The major balances on the section 106 contributions relate to big housing developments at East Anton, Abbotswood, Picket Twenty and Picket Piece.

25. Provisions

The full balance of provisions shown on the Balance Sheet (2019/20 £3.151M; 2018/19 £2.46M) represents the Council's share of backdated business rates appeals that are expected to be awarded in future years. It is not possible to determine when appeals will be settled; therefore the whole balance is shown in current liabilities.

A new rating list was introduced by the Valuation Office Agency with effect from April 2017.

The provision in respect of outstanding appeals from the 2010 list has been prepared in a similar manner to previous years. The calculation is based on a weighted average of resolved appeals from that list, which is then extrapolated across the remaining appeals outstanding at 31st March 2020. £617,000 of the total provision relates to outstanding appeals against the 2010 list.

Alongside the new rating list, the Valuation Office introduced a new method for businesses to appeal against their rateable value from April 2017; this is known as 'Check, Challenge, Appeal'. At a national level there have been a very low number of appeals that have been resolved. There is, therefore, insufficient evidence to prepare a calculation for 2017 appeals in the same way as for the 2010 list. Inevitably, there will be appeals against the rating list that will be resolved in later years and a provision is required. The Council has assumed a rate of 4.7% of collectible business rates in the year to mirror central government estimations for appeals when the new list and 2017/18 rating multipliers were set. This amounts to a provision of £2.534M in respect of the 2017 list.

The following table details the movement in the provision.

	2018/19 £'000	2019/20 £'000
Balance at start of year	1,275	2,460
Amounts charged to the provision	(416)	(433)
Increase in provision	1,601	1,124
Balance at end of year	2,460	3,151

26. Trust Funds

The Council operates a number of trusts for civic purposes. The balances at the end of the year were £63,000 (2018/19 £64,000). The most significant balance is in respect of the Romsey Walk and Pleasure Ground - £57,900 (2018/19 - £57,300).

27. Notes to the Cash Flow Statement

An analysis of items included in the Cash Flow Statement is shown in the following tables.

Net Cash inflow from Operating Activities includes:	2018/19 £'000	2019/20 £'000
Interest received	595	758
Interest paid	(16)	(164)

Other Non-Cash items	2018/19 £'000	2019/20 £'000
Movement in Bad Debt Allowance	(143)	(50)
Movement in provision in respect of Business Rates appeals	1,185	691
Donated assets under s106 agreements	(277)	0
Other non-cash items	(17)	(16)
Other Non-Cash items	748	625

Other income / (payments) for financing activities	2018/19 £'000	2019/20 £'000
Movement in Council Tax debtors	(11)	(42)
Movement in amounts owed to Council Tax preceptors	(268)	116
Movement in Business Rates debtors	279	2
Movement in amounts owed to Business Rates preceptors	(9)	874
Other income / (payments) for financing activities	(9)	950

28. Usable Reserves

The Council's usable reserves represent the level of funding the Council has at its disposal to allocate to future expenditure, subject to the requirement to retain prudent reserve levels for unforeseen future events.

The amounts making up the Council's usable reserves are summarised in the following table. More information on each reserve is given in the following paragraphs.

Reserve	2018/19 £'000	2019/20 £'000
General Fund Balance	2,000	2,604
Revenue & Earmarked Reserves	21,556	24,146
Capital Receipts Reserve	6,022	11,805
Capital Grants Unapplied Reserve	3,464	4,956
Total Usable Reserves	33,042	43,511

General Fund Balance

This is a contingency fund – money set aside for emergencies or to cover any unexpected costs that may occur during the year.

Revenue & Earmarked Reserves

Earmarked reserves are held for specific purposes for costs which will be incurred in future years.

A breakdown of the movement in Earmarked Reserves is shown in the following table.

	Balance as at 31/03/2018	Transfers In 2018/19	Transfers Out 2018/19	Balance as at 31/03/2019	Transfers In 2019/20	Transfers Out 2019/20	Balance as at 31/03/2020
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Income Equalisation Reserve	300	0	0	300	0	0	300
Budget Equalisation Reserve	682	0	0	682	0	0	682
Investment Equalisation Reserve	250	0	0	250	0	0	250
Pension Equalisation Reserve	200	0	(100)	100	0	(100)	0
Collection Fund Equalisation Reserve	3,616	0	0	3,616	0	(61)	3,555
Capacity Building Reserve	163	300	(74)	389	0	(133)	256
Special Projects Reserve	612	155	(428)	339	0	(94)	245
New Homes' Bonus Reserve	8,431	3,837	(8,547)	3,721	3,788	(1,109)	6,400
Asset Management Plan	1,847	3,796	(2,689)	2,954	2,428	(2,007)	3,375
Chantry Centre Planned Maintenance Reserve	0	1,349	0	1,349	446	(346)	1,449
Budget Carry Forward Reserve	315	280	(287)	308	94	(295)	107
Local Authority Business Growth Incentive	2	0	0	2	0	0	2
Borough Election Reserve	70	35	0	105	35	(140)	0
All Risks Self-Insurance Reserve	149	0	(53)	96	0	(2)	94
Business Support (Floods)	147	0	0	147	0	0	147
Local Development Framework Reserve	127	405	(8)	524	103	(31)	596
Waste Performance & Efficiency Grant	33	0	(16)	17	0	(4)	13
Benefit Reform Reserve	134	0	(56)	78	0	0	78
Developer contribution for future years' maintenance costs	5,805	144	(645)	5,304	505	(537)	5,272
Enterprise and Innovation Reserve	369	0	(39)	330	0	(15)	315
Valley Housing Ltd Reserve	250	0	0	250	0	0	250
Housing Reserve	175	280	(93)	362	234	(150)	446
Private Rented Sector Access Reserve	0	115	0	115	0	(1)	114
Other Earmarked Reserves	136	82	0	218	0	(18)	200
Total Earmarked Revenue Reserves	23,813	10,778	(13,035)	21,556	7,633	(5,043)	24,146

The property insurance policy has an excess of £5,000 per claim. The Council self-insures 'All Risks' items for which an earmarked reserve of £94,000 (2018/19 £96,000) is set aside. In the case of car loans, the risk of default or death of the borrower is on a self-insured basis.

Capital Receipts Reserve

The movement of the balance of the Capital Receipts Reserve reflects the transactions in the year in generating capital receipts and incurring capital expenditure. These transactions are summarised in the following table.

	2018/19		2019/20	
	£'000	£'000	£'000	£'000
Balance at start of year		10,974		6,022
Capital Receipts				
Sale of Assets	4,340		6,062	
Right to Buy Receipts	699		353	
		5,039		6,415
Capital Expenditure				
Purchase of Assets	(9,848)		(119)	
Revenue Expenditure funded from Capital Under Statute	(143)		(513)	
		(9,991)		(632)
Balance at end of year		6,022		11,805

Capital Grants Unapplied Reserve

The Capital Grants Unapplied Reserve holds the grants and contributions received towards capital projects for which the Council has met the conditions that would otherwise require payment of the monies, but which have yet to be applied to meet expenditure. The balance is restricted by grant terms as to the capital expenditure against which it can be applied.

The movement in the balance of the Capital Grants Unapplied Reserve is shown in the following table.

	2018/19		2019/20	
	£'000	£'000	£'000	£'000
Balance at start of year		1,163		3,464
Capital Grants Received:				
Disabled Facilities Grants	674		405	
Community Infrastructure Levy	1,677		1,270	
		2,351		1,675
Capital Expenditure				
Revenue Expenditure funded from Capital Under Statute	(50)		(183)	
		(50)		(183)
Balance at end of year		3,464		4,956

29. Unusable Reserves

There are a number of unusable reserves that make up part of the Council's net worth. The balances on these accounts are calculated according to proper accounting practices but the balance cannot be used by the Council for future expenditure on delivering services.

The amounts making up the Council's unusable reserves are summarised in the following table. More information on each reserve is given in the following paragraphs.

Reserve	2018/19 £'000	2019/20 £'000
Revaluation Reserve	19,996	21,638
Capital Adjustment Account	172,897	209,008
Deferred Credits	7	7
Collection Fund Adjustment Account	(699)	(771)
Accumulated Absences Account	(178)	(171)
Pension Fund Reserve	(56,560)	(62,791)
Total Unusable Reserves	135,463	166,920

Revaluation Reserve

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

- revalued downwards or impaired and the gains are lost
- used in the provision of services and the gains are consumed through depreciation
- disposed of and the gains realised
- reclassified as investment properties.

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

	2018/19		2019/20	
	£'000	£'000	£'000	£'000
Balance at start of year		17,201		19,996
Upward revaluations of assets in the year	3,061		2,076	
Depreciation of previous years' revaluation gains	(266)		(434)	
		2,795		1,642
Balance at end of year		19,996		21,638

Capital Adjustment Account

The Capital Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for the purchase, subsequent expenditure, depreciation and impairment of assets compared with the financing of those assets under statutory provisions.

	2018/19		2019/20	
	£'000	£'000	£'000	£'000
Balance at start of year		159,603		172,897
Transfer from Revaluation Reserve	266		434	
Revaluation gains / (losses) on Investment Property	(2,855)		41,593	
Assets purchased in the year	20,333		4,745	
Capital loan advanced in year	1,895		22	
Statutory provision for the repayment of debt	0		187	
Transfer from Capital Receipts Reserve	143		513	
Transfer from Capital Grants Unapplied Reserve	50		183	
		19,832		47,677
Disposal of assets	(3,171)		(3,985)	
Repayment of capital loan	(1,168)		(2,050)	
Impairment of capital loan	(23)		0	
Depreciation of non-current assets	(2,005)		(2,801)	
Amortisation of intangible assets	(46)		(43)	
Impairments	68		(1,991)	
Revenue expenditure funded from capital	(193)		(696)	
		(6,538)		(11,566)
Balance at end of year		172,897		209,008

Deferred Credits

This represents the balance of the remaining mortgages given by the Council that will become usable capital receipts when they are repaid.

Collection Fund Adjustment Account

The Comprehensive Income and Expenditure Statement shows the Council's share of the income generated from Council Tax and Business Rates in the year. However, statutory accounting arrangements require that any variances from budget cannot be treated as income or expenditure by the Council until later years. To ensure the correct accounting treatment for this, a transfer is made to the Collection Fund Adjustment Account for the movement in the surplus or deficit in the year.

This account shows the Council's share of the accumulated difference between the estimated and actual returns in the Collection Fund (see pages 71 to 74).

The surplus on the Council Tax part of the Collection Fund at 31st March 2020 was £2.043M, of which the Council's share is £219,000. The deficit in respect of business rates was £2.468M of which the Council's share was £987,000.

The Council is entitled to retain 100% of the business rates collected from Renewable Energy schemes within the Borough. However, any variance to the original budget cannot be treated as income until later years and is therefore transferred to the Collection Fund Adjustment Account. The amount retained at 31st March 2020 was £3,000 higher than the actual income from Renewable Energy Schemes and this will be returned from the General Fund in 2020/21.

	2018/19 £'000	2019/20 £'000
Share of Council Tax Surplus b/f	225	211
Movement in the year	(14)	8
Share of Council Tax Surplus c/f	211	219
Share of Business Rates' Surplus / (Deficit) b/f	680	(913)
Movement in the year	(1,593)	(74)
Share of Business Rates' Surplus / (Deficit) c/f	(913)	(987)
Renewable Energy Business Rates retained b/f	316	3
Movement in year	(313)	(6)
Renewable Energy Business Rates retained c/f	3	(3)
Balance at end of year	(699)	(771)

Accumulated Absences Account

This represents the reversal of the accrual for compensated absences (annual leave not taken at the year-end). The accrual is required under the Code but under regulations is not allowed to count as expenditure against the General Fund and the subsequent level of Council Tax.

Pension Fund Reserve

The Pension Fund Reserve absorbs the timing differences arising from the different arrangements for accounting for retirement benefits and for funding those benefits under statutory provisions.

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

The debit balance on this reserve therefore shows a substantial shortfall between the benefits earned by past and current employees of the Council and the resources set aside to meet them. Statutory arrangements will ensure that funding will have been set aside by the time the benefits come to be paid.

The transactions relating to the Council's pension liability are shown in more detail in note 14.

30. Financial Instruments

Financial instruments are contractual arrangements that give rise to a financial asset in one entity and a financial liability in another. For the Council this primarily relates to financial assets in the form of investments and debtors and financial liabilities in the form of creditors.

During the year all investment funds were managed internally.

Financial Instrument Balances

The following categories of financial instrument are carried in the Balance Sheet.

	31st March 2019		31st March 2020	
	Current £'000	Long-Term £'000	Current £'000	Long-Term £'000
Financial Assets:				
<u>Investments</u>				
Fair Value through Profit or Loss	0	250	0	375
Amortised Cost	40,562	5,062	56,346	5,029
<u>Debtors</u>				
Amortised cost - Sundry Debtors	8,080	792	7,081	805
Amortised cost - Housing	63	0	63	0
Amortised cost - Car Leasing and Loans	80	0	78	0
Financial Liabilities:				
<u>Creditors</u>				
Amortised cost - Borrowings	(194)	(5,722)	(261)	(7,018)
Amortised cost - Sundry Creditors	(4,337)	0	(5,371)	0

Fair Value of Financial Instruments that are Measured at Fair Value through Profit and Loss

The Council has a shareholding in HCB Holding Ltd. The company was formed in July 2014 and has no established trading history. There are also no established companies with similar aims in the Council's area whose shares are traded and which might provide comparable market data. The Council has no intention to dispose of the shareholding. The 375 A Class Common Shares are measured at their cost of £1,000 per share (being the par value of £1 plus a premium of £999 per share) as a best estimate of fair value.

Fair Value of Financial Instruments that are not Measured at Fair Value

Except for the financial assets carried at fair value (described in the table above), all other financial assets and liabilities held by the Council are carried in the Balance Sheet at amortised cost. Their fair value can be assessed by calculating the present value of the cash flows that take place over the remaining life of the instruments, using the following assumptions:

- For loans receivable prevailing benchmark market rates have been used to provide the fair value
- No early repayment or impairment is recognised
- Where an instrument has a maturity of less than 12 months or is a trade or other receivable, the fair value is taken to be the carrying amount or billed amount
- For loans from the PWLB payable, PWLB prevailing market rates have been applied to provide the fair value under PWLB debt redemption procedures.

The fair values are calculated as follows:

Financial assets	31st March 2019		31st March 2020	
	Carrying Value	Fair Value	Carrying Value	Fair Value
	£'000	£'000	£'000	£'000
Cash	5	5	5	5
Cash Equivalents	10,557	10,557	10,653	10,653
Deposits with banks and building societies	18,493	18,493	30,228	30,228
Short term Loans and Receivables	22,069	22,069	26,118	26,118
Long term Loans and Receivables	5,062	5,110	5,029	5,713
Total	56,186	56,234	72,033	72,717

The fair value is higher than the carrying amount because the Council's portfolio of investments includes a number of fixed rate loans where the interest rate receivable is higher than the rates available for similar loans at the Balance Sheet date. This shows a notional future gain (based on economic conditions at 31st March 2020) attributable to the commitment to receive interest above market rates.

Financial liabilities	31st March 2019		31st March 2020	
	Carrying Value	Fair Value	Carrying Value	Fair Value
	£'000	£'000	£'000	£'000
Borrowings - PWLB debt	(5,916)	(6,018)	(7,279)	(7,229)
Total	(5,916)	(6,018)	(7,279)	(7,229)

The fair value of the liabilities is lower than the carrying amount because the Council's loans are fixed rate loans where the interest rate payable is lower than the rates available for similar loans in the market at the Balance Sheet date. This shows a notional future gain (based on economic conditions at 31st March 2020) arising from a commitment to pay interest to lenders below current market rates.

It is considered that the carrying value is equal to the fair value for all other financial assets and liabilities not included in the table above.

The valuation basis adopted uses Level 2 Inputs – i.e. inputs other than quoted process that are observable for the financial instruments.

Items of income, expense, gains or losses

The gains and losses recognised in the Comprehensive Income and Expenditure Statement in relation to financial instruments measured at amortised cost are made up as follows:

	2018/19 £'000	2019/20 £'000
Interest received	595	758
Interest paid	(16)	(164)

31. Nature and Extent of Risks Arising From Financial Instruments

The Council's activities expose it to a variety of financial risks. The key risks are:

- credit risk – the possibility that other parties might fail to pay amounts due to the Council
- liquidity risk – the possibility that the Council might not have funds available to meet its commitments to make payments
- market risk – the possibility that financial loss might arise for the Council as a result of changes in such measures as interest rates or stock market movements

Overall procedures for managing risk

The Council's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the resources available to fund services. Risk management is carried out by the treasury management team, under policies approved by the Council prior to the commencement of each financial year in the Treasury Management Strategy and Annual Investment Strategy.

The Treasury Management Strategy and Annual Investment Strategy was approved by Council in February 2019 and is available on the Council's website.

Credit Risk

Treasury Investments

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

The risk is minimised through the policy of the Council to place deposits only with a limited number of institutions that meet strict criteria as defined in the Council's Treasury Management Strategy and Annual Investment Strategy. The Council also had a policy through the majority of the year of limiting deposits with institutions to a maximum of £15M. This was increased to £30M on 25th March 2020 to allow for an expected increase in cash due to the Council acting as agent for the Government's Small Business Grant Fund and Retail, Hospitality and Leisure Grant Fund following lockdown due to the Covid-19 pandemic.

The Council's maximum exposure to credit risk in relation to its investments cannot be assessed generally as the risk of any financial institution failing to make interest payments or repay the principal sum will be specific to each individual institution. With regard to deposits with banks and building societies, the Council has no recent experience of defaults. Although a risk of irrecoverability applies to all of the Council's deposits, there was no evidence at 31st March 2020 that this was likely to crystallise and the credit impairment losses have been assessed as nil.

The following table summarises the credit risk of the Council's investment portfolio at 31st March 2020 by credit rating.

Credit rating	£'000s
AA-	31,146
A+	8,054
A	22,175
Shares in unlisted company	375
Total	61,750

Trade Receivables

As per the requirements of the Code, Trade Receivables excludes balances arising from statutory functions (e.g. Council Tax and Non Domestic Rates) as they have not arisen from contractual trading activities.

Trade debtors are not subject to internal credit rating and are collectively assessed on the purposes of calculating expected credit losses using a provision matrix based on historical data.

The Council's maximum exposure to credit risk is shown on the following table.

	Amount at 31st March 2020	Historical Experience of Default	Historical Experience Adjusted for Market Conditions	Estimated Maximum Exposure to Default
	£'000	%	%	£'000
Long Term Debtors	805	0.00	0.00	0
Sundry Debtors	7,081	18.46	18.46	1,307
Housing Debtors	63	88.89	88.89	56
Other Debtors	78	21.79	21.79	17
Total	8,027			1,380

The Council does not allow credit for customers. The following table provides a breakdown of amounts past due but not impaired included in Sundry Debtors.

	31st March 2019 £'000	31st March 2020 £'000
Less than three months	1,939	1,405
Three months to one year	84	1,207
More than one year	115	218
Total	2,138	2,830

Liquidity Risk

The Council has a comprehensive cash flow management system that seeks to ensure that cash is available as needed and has ready access to borrowing from the Public Works Loans Board (PWLB). There is a minimal risk that the Council will not be able to meet its commitments under financial instruments.

The Council has loans from the PWLB on a repayment basis. The maturity analysis is as follows:

	2018/19 £'000	2019/20 £'000
Less than one year	179	230
Between one and five years	755	972
Between five and ten years	1,043	1,343
Between ten and fifteen years	1,166	1,501
Between fifteen and twenty years	1,302	1,678
Between twenty and twenty five years	1,455	1,524
Total	5,900	7,248

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

Market Risk

The Council is exposed to a small risk in terms of its exposure to interest rate movements on its deposits with banks and building societies. An interest rate rise / fall would result in the interest credited to the Surplus or Deficit on Provision of Services increasing / decreasing.

The Council does not generally invest in equity shares but does have a small shareholding in HCB Holding Ltd as detailed in note 30. The £375,000 shares are classified at fair value through profit and loss, meaning that all movements in the fair value of the shares will impact on gains and losses recognised in the Surplus or Deficit on Provision of Services.

Foreign Exchange Risk

The Council has no financial assets or liabilities denominated in foreign currencies and therefore has no exposure to loss arising from movements in exchange rates.

32. Related Party Transactions

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

Central Government has effective control over the general operations of the Council – it is responsible for providing the statutory framework within which the Council operates, provides significant funding in the form of grants and prescribes the terms of many of the transactions that the Council has with other parties. Grants received from Government departments are set out in more detail in note 9.

Members of the Council have direct control over the Council's financial and operating policies. The amount paid to Councillors is disclosed in note 12. All Councillors, non-Council members and Heads of Service have confirmed that they have not had material transactions with the Council during the financial year.

During 2019/20 £313,900 (2018/19 £273,600) in grants was paid to voluntary organisations in which fifteen Councillors were officially appointed. The grants were made with proper consideration of declarations of interest. The relevant Members did

not take part in any discussion or decision relating to the grants. The most significant of these grants are reported annually to Cabinet prior to the start of the financial year.

33. Group Accounts

On 30th April 2016, Valley Housing Limited, a Housing Development and Management Company which is a wholly owned subsidiary of Test Valley Borough Council was incorporated.

Group accounts have not been prepared for the year ended 31st March 2020 as the value of transactions between Test Valley Borough Council and Valley Housing Limited is not considered to be material.

34. Contingent Assets

As part of the Large Scale Voluntary Transfer Agreement (LSVT), the Council is entitled to receive income generated from Right-to-Buy sales of former Council properties. In 2019/20 the income generated from this source was £353,000 (2018/19 £699,000). The generation of this income is outside of the Council's control and is not quantifiable for future years.

35. Contingent Liabilities

Large Scale Voluntary Transfer (LSVT)

As part of the LSVT the Council was required to provide environmental warranties to both Testway Housing and their lenders for a period of 36 years (to expire 19th March 2036). There was no local knowledge of serious problems in this regard, and considering the likely costs involved in obtaining insurance cover, it is currently not considered to be cost effective to purchase insurance against this risk.

The Council also provided a guarantee to Testway Housing in respect of any pension deficit arising in respect of staff transferred from the Council to Testway Housing in the event that Testway Housing is wound up. 164 staff were transferred as part of LSVT.

Testway Housing has since merged with two other Housing Associations to form a new company – Aster Communities. At the time of the merger in 2011 the Council re-affirmed its commitment in respect of this guarantee. At that time the guarantee related to 63 staff (11 active members and 52 deferred pensioners).

There is no information to suggest that Aster Communities is not a going concern, neither is it possible to assess the potential deficit. As a result it is not considered appropriate to provide for any liability in this regard.

Municipal Mutual Insurance Ltd – Scheme of Arrangement

In 1992 Municipal Mutual Insurance Ltd. (MMI), which the Council and many other local authorities had insured with, experienced trading difficulties. The Company's creditors agreed a "Scheme of Arrangement" which allowed the Company to work towards a solvent run-off (of the company) until all outstanding claims were settled.

On 28th March 2012, the Supreme Court ruled the Employers' Liability Policy Trigger Litigation relating to mesothelioma claims which found against MMI. The judges ruled that the insurer who was on risk at the time of an employee's exposure to asbestos was liable to pay compensation for the employee's mesothelioma.

On 13th May 2013, the Scheme Administrator estimated that an initial Levy of 15% of the maximum liability (£46,000) would be applicable to the Council; this was paid in

2013/14 and shown in non-distributed costs in the Comprehensive Income and Expenditure Statement.

On 16th March 2016, the Scheme Administrator estimated that a further levy of 10% of the maximum liability (£30,400) would be applicable to the Council. This was shown in non-distributed costs in the Comprehensive Income and Expenditure Statement for the year ended 31st March 2016. No indications have been given as to whether future levies will be necessary. The Council's maximum remaining liability is £228,000.

36. Events After the Balance Sheet Date

There are no material events after the balance sheet date which would have a material impact on the accounts for 2019/20.

37. Going Concern

The going concern assumption in the Accounting Code of Practice is based on the expectation that a local authority's services will continue to operate for the foreseeable future. The Covid-19 pandemic has had a significant impact on the Council's financial position during 2020, but, following emergency funding and financial support given by the Government, there is no risk to the Council's going concern assessment.

The outbreak of Covid-19 took place during the 2019/20 financial year. However, the impact of this only began to be felt in the final few weeks of the financial year. There is therefore no material impact on the accounts presented for 2019/20.

Throughout the 2020/21 financial year, work has been undertaken on a monthly basis to assess the impact of spending pressures and reductions in planned income levels caused by Covid-19. This has helped to determine the estimated overall impact on the Council's budget for the year.

Based on the returns submitted to the Minister for Housing, Communities and Local Government (MHCLG) in December 2020, the Council has a predicted unfunded deficit of £1.8M for 2020/21. This could be met in full from the General Fund balances of £2.6M without the need to draw on earmarked reserves.

With regard to future years, the Provisional Local Government Finance Settlement was announced in December 2020 and provides greater certainty to the assumptions made in the Budget Strategy for 2021/22 and the Councils' going concern assessment for that year. There continues to be an expected impact from Covid-19 in 2021/22 and latest forecasts estimate this pressure to be £768,000. This is explained in more detail in the report to Cabinet on 13th January 2021.

Irrespective of whether the Council receives any additional funding next year, the Council has the ability to draw on four equalisation reserves, and as a last resort, the New Homes Bonus Reserve, together totalling £11.2M, providing the financial headroom to manage its affairs and resources effectively over the medium term.

The forecast deficit of £1.8M for 2020/21 is, broadly speaking, made up of lost income / extra costs of £6M offset by £4.2M of government support. In a worst case scenario where these costs continue throughout 2021/22 and there is no extra government support or efficiencies identified by the Council, there would still be earmarked reserves of £3.4M at 31st March 2022.

A cash flow forecast has been undertaken, using all currently known or expected transactions that will take place over the next year to the end of March 2022. In summary, this forecast clearly establishes that:

- Over the going concern period the Council is predicted to have positive cash balances at all times.
- There is no expectation that external borrowing will be required.

Following the completion of the review of available reserves and the cash flow forecast for the next twelve months, the Council considers that there is no risk to the Council as a going concern.

38. Date Accounts Authorised for Issue

The pre-audited Statement of Accounts was authorised for issue by the Head of Finance on 17th July 2020.

The audited Statement of Accounts was approved by the General Purposes Committee on 10th February 2021.

THE COLLECTION FUND

This account reflects the statutory requirement for billing authorities to maintain a separate Collection Fund which shows the transactions of the billing authority in relation to the collection from taxpayers and distribution to local authorities and the government of Council Tax and Business Rates.

INCOME AND EXPENDITURE ACCOUNT				
	2018/19		2019/20	
	£'000	£'000	£'000	£'000
COUNCIL TAX				
Opening Balance		2,019		1,938
<u>Income</u> Council Tax		79,201		84,058
<u>Expenditure</u>				
Hampshire County Council	57,741		60,565	
Hampshire Fire Authority	3,161		3,315	
Hampshire Police and Crime Commissioner	8,532		9,865	
Test Valley Borough Council	7,095		7,271	
Parishes	1,509		1,598	
Payments to preceptors in respect of previous surpluses	1,004		1,015	
Increase in Bad Debt Allowance	240		324	
Total Expenditure		79,282		83,953
Council Tax Surplus / (Deficit) For The Year		(81)		105
Closing Balance		1,938		2,043
BUSINESS RATES				
Opening Balance		1,700		(2,283)
<u>Income</u> Business Ratepayers		55,410		56,136
<u>Expenditure</u>				
Central Government	27,101		26,815	
Hampshire County Council	4,878		4,827	
Hampshire Fire Authority	542		536	
Test Valley Borough Council	21,682		21,452	
Payments to / (from) preceptors in respect of forecast surplus / (deficit)	1,019		(144)	
Increase/(reduction) in provision for backdated appeals	2,963		1,727	
Transitional Protection Payments due to / (from) Central Govt	(132)		62	
Increase in Bad Debt Allowance	696		427	
Cost of Collection Allowance	187		188	
Amount retained in respect of renewable energy schemes	457		431	
Total Expenditure		59,393		56,321
Business Rates' Surplus / (Deficit) For The Year		(3,983)		(185)
Closing Balance		(2,283)		(2,468)
COLLECTION FUND SUMMARY				
Deficit for the year		(4,064)		(80)
Balance at the start of the year		3,719		(345)
Deficit at the end of year		(345)		(425)

NOTES TO THE COLLECTION FUNDBusiness Rates

The starting point for the income from Business Ratepayers is the Rateable Value of each hereditament multiplied by the (national) Business Rating Multiplier for the year, which was 50.4p in 2019/20.

Net income is derived following adjustments in respect of:

- Transitional Relief
- Mandatory and Discretionary Relief in respect of charities and kindred organisations
- Small Business Relief
- Rural Rate Relief
- Supporting Small Businesses Reliefs
- Public Houses Reliefs and
- Bad debts

The total non-domestic rateable value at the 31st March 2020 was £137,218,721.

The Collection Fund balance on the 31st March 2020 in respect of Non Domestic Rates (NDR) was a deficit of £2.468M which is included within the Balance Sheet. Amounts in respect of Test Valley Borough Council are contained within the reserves section of the Balance Sheet; amounts due to the other major preceptors are shown within creditors.

This deficit will be shared amongst the major preceptors on a fixed apportionment basis (Central government 50%, Test Valley Borough Council 40%, Hampshire County Council 9% and Hampshire Fire and Rescue Authority 1%) in 2020/21 and 2021/22.

The payments to the major preceptors in 2019/20 are shown in the following table.

Non Domestic Rates Collection Fund				
2018/19	2019/20			
Total	Major Preceptors	Precept	Share of 2018/19 Forecast Deficit	Total
£'000		£'000	£'000	£'000
27,610	Central Government	26,815	(72)	26,743
4,970	Hampshire County Council	4,827	(13)	4,814
552	Hampshire Fire Authority	536	(1)	535
22,090	Test Valley Borough Council	21,452	(58)	21,394
55,222	Total	53,630	(144)	53,486

Council Tax

The income from Council Tax is directly linked to the banding of properties based on their valuations. The number of chargeable dwellings in each valuation band was converted to an

equivalent number of Band D dwellings, which was used to calculate the Council Tax base of 48,966 for 2019/20.

The Collection Fund balance on the 31st March 2020 in respect of Council Tax was a surplus of £2.043M which is included within the Balance Sheet. Amounts in respect of Test Valley Borough Council are contained within the reserves section of the Balance Sheet; amounts due to the other major preceptors are shown within creditors.

This surplus will be shared amongst the major preceptors in proportion to their respective precepts (Test Valley's share is 10.74% for 2019/20 and 10.70% for 2020/21) and will be included in the Council Tax calculations for 2020/21 and 2021/22.

The payments to the major preceptors in 2019/20 are shown in the following table.

Council Tax Collection Fund				
2018/19	2019/20			
	Major Preceptors	Precept	Share of 2018/19 Surplus	Total
£'000		£'000	£'000	£'000
58,482	Hampshire County Council	60,565	751	61,316
3,203	Hampshire Fire Authority	3,315	41	3,356
8,640	Hampshire Police & Crime Commissioner	9,865	111	9,976
7,208	Test Valley Borough Council	7,271	112	7,383
77,533	Total	81,016	1,015	82,031

COUNCIL TAX BASE - ANALYSIS OF PROPERTIES

BAND	A*	A	B	C	D	E	F	G	H	TOTAL
Full Charge	0	1,309	5,019	10,098	7,804	6,814	4,173	3,156	450	38,823
10% Discount	0	0	0	0	0	0	0	0	0	0
25% Discount	0	1,371	4,145	4,330	2,608	1,503	709	513	44	15,223
50% Discount	0	103	16	10	14	13	12	19	5	192
100% Exempt	0	17	64	71	38	22	17	9	0	238
50% Premium	0	8	8	7	2	1	3	3	1	33
Net Adjustment for Properties Charged at a Lower Band	1	30	42	(3)	(4)	(36)	6	(22)	(14)	0
Total Number of Properties	1	2,838	9,294	14,513	10,462	8,317	4,920	3,678	486	54,509
Chargeable Number of Properties	1	2,713	9,205	13,941	10,192	8,142	4,848	3,601	471	53,114
Equivalent Number of Properties after discounts, exemptions, premiums and disabled relief	1	2,306	8,101	12,786	9,496	7,738	4,649	3,456	458	48,991
Ratio to Band D	5/9	6/9	7/9	8/9	1	11/9	13/9	15/9	2	
Band D Equivalents	1	1,537	6,301	11,365	9,496	9,458	6,715	5,760	916	51,549
Provision for Council Tax Support										(2,889)
Provision for Bad Debts										(364)
Crown Contributions										670
Total Band D Equivalents										48,966

GLOSSARY OF TERMS

Accounting Period	The period of time covered by the accounts, normally a period of twelve months, commencing on 1 st April for local authority accounts.
Accruals	This is the accounting concept that income and expenditure are recorded as they are earned or incurred, rather than when money is received or paid.
Actuarial Gains & Losses	Actuaries assess financial and non-financial information provided by the Council to project levels of future pension fund requirements. Changes in actuarial deficits or surpluses can arise leading to a loss or gain because: - events have not coincided with the actuarial assumptions made for the last valuation (experience gains and losses) - the actuarial assumptions have changed.
Assets	Items of worth which are measurable in terms of value.
Balances	The reserves of the Council, both revenue and capital, which represent the accumulated surplus of income over expenditure on any of the funds.
Business Rates	Businesses pay Business Rates instead of Council Tax. Each year, the Government sets the charge based on a fixed percentage of the business's rateable value, and the charge is collected by the Council. Since 1 st April 2013, the Council retains a proportion of the rates collected.
Capital Expenditure	Expenditure on the acquisition or improvement of tangible assets which yield benefits to the Council for more than one year.
Capital Receipts	Monies received from the sale of non-current assets, which may be used to finance new capital expenditure.
Cash and Cash Equivalents	Cash and deposits held in banks that are readily convertible into known amounts of money without penalty or time delays.
Collection Fund	This is a statutory fund separate from the main accounts of the Council. It records all income due from Council Tax and Business Rates. It shows all precepts and statutory payments to other bodies.
Contingent Assets	Future income owed to the Council arising from a past event for which the amounts cannot be accurately quantified at the balance sheet date.
Contingent Liabilities	Amounts potentially payable to individuals or organisations which may arise in the future but which at this time cannot be determined accurately.
Contingent Rent	A rental income that is based on performance. This could be as a % of turnover of net profit.
Creditors	Amounts owed by the Council for work done, goods received or services rendered within the accounting period, but for which payment was not made by the year end.
Current assets	Assets which may change in value on a day to day basis (e.g. stocks), or which are expected to be fully recovered within one year (e.g. short-term deposits with banks).
Current Service Cost	The increase in the present value of the pension scheme liabilities expected to arise from employee service in the current period.
Debtors	Amounts owed for work or services rendered by the Council within the financial year which were not paid by the year end.
Depreciated Replacement Cost	A valuation method used as a proxy for market value of assets of a specialised nature where no market exists to gauge fair value. It is based on the estimated cost to replace the asset less an allowance for the age of the asset being valued.
Depreciation	The measure of the wearing out, consumption, or other reduction in the useful economic life of a fixed asset.

Effective Interest Rate	The average rate of interest over the life of a loan. It takes into account known changes in interest rates over the period of a loan, e.g. discounted rates in early periods.
Expenditure	Amounts paid by the Council for goods received or services rendered of either a capital or revenue nature. This does not necessarily involve a cash payment since expenditure is deemed to have been incurred once the goods or services have been received even if they have not been paid for.
Fair Value	The value an asset or liability could reasonably be transferred for in an arm's length transaction with another party who is properly informed about that item.
Financial Instruments	These represent any item that will cause the Council to receive or pay money. This ranges from sundry debtors and creditors to cash investments. The only items that are excluded from this are Council Tax and Business Rates.
General Fund	This is the main revenue fund of the Council includes the net cost of all services financed by local taxpayers and government grants.
Heritage Assets	Assets held primarily for their historical, artistic, scientific, technological, geophysical or environmental qualities and maintained for their contribution to knowledge and culture.
IFRS	International Financial Reporting Standards are the guidelines within which the Council's accounts have to be prepared.
Impairment Allowance	An allowance that is made against income that is due to the Council that it is considered is unlikely to be recovered.
Impairment of Assets	The reduction of the value of an asset through either market price changes or reduction in the asset's ability to deliver services e.g. if affected by fire or flood. Impairments as a result of market price changes from previous years may be reversed as market conditions change.
Income	Amounts due to the Council for goods supplied or services rendered of either a capital or revenue nature. This does not necessarily involve cash being received since income is deemed to have been earned once the goods or services have been supplied even if cash has not been received.
Intangible Assets	Assets that have no physical form but which provide economic benefits to the Council. Examples include software licences (that last over one year) and rights to hold markets in Andover High Street.
Inventories	Stocks and work-in-progress are included under this heading.
Investment Property	Properties owned by the Council which are held solely for income generation purposes or for appreciation in sale value.
Leases	Where a rental is paid for the use of an asset for a specified period of time. Two forms of lease exist. Under a Finance Lease the asset is treated as the property of the lessee. Under an Operating Lease the asset remains the property of the lessor and the lease costs are a revenue expense of the Council.
Liabilities	Amounts due to individuals or organisations which will have to be paid at some time in the future. Current liabilities are usually payable within one year of the Balance Sheet date.
Minimum Revenue Provision	Amounts set aside as a statutory provision for the repayment of debt.
Non-Current Assets	Assets which are owned by the Council which have a useful life of more than one year.
Past Service Cost	Discretionary benefits awarded on early retirement are treated as past service costs.

Precepts	The method by which an authority obtains the income it requires by making a levy on an appropriate billing authority. The billing authority (this Council) must then charge for the precepted amount. For example, the Council Tax bills raised by the Council include the amounts precepted by Hampshire County Council, Fire and Police Authorities and Parish Councils.
Present Value	The current estimated value of future assets or liabilities taking into account the estimated effects of the time value of money.
Property Plant and Equipment	Tangible assets which yield benefit to the Council for a period of more than one year. They can be further classified into:
Land and Buildings	Property assets held and occupied, used or consumed by the Council in the direct delivery of services for which it has either statutory or discretionary responsibility e.g. Council offices.
Vehicles and Equipment	Items of plant and machinery used by the Council in the delivery of services e.g. refuse vehicles, grounds maintenance equipment.
Community assets	Assets that the Council intends to hold in perpetuity, which have no determinate finite useful life and may have restrictions on their disposal e.g. parks, works of art.
Infrastructure assets	These are inalienable assets, the benefit of which is received only by their continued use e.g. cycle routes, footpaths.
Surplus assets	These are assets that are not being used to deliver services, but which do not meet the criteria to be classified as either investment properties or assets held for sale.
Asset under Construction	Assets that are not yet completed.
Provision	An amount set aside for expenditure in a future financial period as a result of an obligation arising from a past event. The obligation must be expected to result in a payment that can be reasonably estimated.
Reserves	
Usable	Amounts set aside for future purposes over which the Council has full discretion, subject to statutory regulations which require capital reserves to be used only to finance new capital expenditure.
Unusable	Amount included in the balance sheet that the Council is not able to apply to future expenditure.
Revenue Contributions to Capital	The method of financing capital expenditure directly from the General Fund.
Revenue Expenditure	Expenditure incurred on the day to day running of the Council. This mainly includes employee costs, general running expenses and contract payments.
Revenue Expenditure Funded From Capital Under Statute	Items of expenditure that are categorised as capital expenditure but do not generate new assets for the Council. The main examples of this are Disabled Facilities' Grants and grants to affordable housing projects.
Revenue Support Grant	This is a Central Government Grant paid each year as a contribution towards the cost of the Council's services in general.

Test Valley Borough Council

Annual Governance Statement 2019/20

Scope of responsibility

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

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

The Council has approved and adopted a local code of corporate governance, which is consistent with the principles of the CIPFA/SOLACE Framework *Delivering Good Governance in Local Government*. A copy of the code is on the Council's website at:

<http://www.testvalley.gov.uk/aboutyourcouncil/corporatedirection/local-code-corporate-governance>, or can be obtained from the Head of Legal and Democratic Services. This statement explains how the Council has complied, and continues to comply, with the principles underlying this code and also meets the requirements of regulation 6 of the Accounts and Audit (England) Regulations 2015, which requires all relevant bodies to prepare an annual governance statement.

The purpose of the governance framework

The governance framework comprises the systems and processes, and culture and values, by which the Authority is directed and controlled and its activities through which it accounts to, engages with and leads the community. It enables the Council to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, value for money services.

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

The governance framework has been in place at the Council for the year ended 31 March 2020 and will continue to be developed during the coming year.

The governance framework

The key elements of the systems and processes that comprise the Council's governance arrangements are as follows:

- The Council has fulfilled the following key roles (now formally adopted as part of the Local Code of Governance):
 - To promote the well-being of the area and provide leadership to the community;
 - To ensure the provision of high quality services provided in-house, by private sector companies, jointly with other Councils or agencies, or by the voluntary sector;
 - To be accountable and provide stewardship for the use of public funds and resources;
 - To build a strong sense of community.

In fulfilling these roles the Council is committed to following the six core principles of good corporate governance identified in the CIPFA/SOLACE Guidance and how the Council is working towards achieving these principles is set out in the document "Principles of Good Governance"

- A single strategic partnership for the Borough is in place called the Test Valley Partnership. It brings together the key partner agencies from across the public and voluntary and community sector. It meets twice a year and provides a place in which the key strategic issues facing the borough can be discussed, joint work developed and statutory duties met.
- The Council has a clear vision of its purpose and desired outcomes for the short, medium and long term. These are encapsulated in its Corporate Plan through a range of corporate and service strategies and through four areas of focus as part of the Council's commitment to the Test Valley Partnership. There has been considerable consultation and stakeholder involvement in the development and progression of these plans and strategies and they are made available to the public through a variety of means including the Council's website and Test Valley News.
- The Council has published a [Corporate Plan for 2019 / 2023 "Growing Our Potential"](#) which was approved by the Council on 10/04/19. It has four main aims and an action plan detailing how these aims will be delivered. It is supported by a performance management framework (including performance indicators) to measure progress. In developing the plan previous priorities were reviewed, extensive consultation was undertaken with local people and elected Councillors whilst also considering external influences on the borough such as government

policy. The Council was, last year, chosen to take part in a national innovation in democracy pilot sponsored by Central Government. This allowed the Council to develop further good practice in terms of community involvement through the running of a citizens assembly for a regeneration scheme in Romsey.

- This informed the setting of the Council's future priorities and is supported by a robust evidence base taking into account the views of over 2000 local residents, external influences and statistical bases. The Council formally reviews its progress and performance against its corporate priorities through an Annual Corporate Action Plan Report <https://www.testvalley.gov.uk/aboutyourcouncil/corporatedirection/corporate-plan-for-2019-to-2023> which is presented to Overview and Scrutiny Committee (OSCOM) and the Cabinet.
- Members of OSCOM undertake task and finish panel reviews. Once an area for review has been identified, the lead member/chairman of the panel presents the draft scoping document for the review to the full committee for consideration. A full report is then subsequently presented to OSCOM once the review has been completed or reached an appropriate stage. This process has ensured more effective and focused reviews and a clear line of responsibility to the main committee. In addition, there are standing panels; the Audit Panel and the Budget Panel which meet regularly throughout the year and cover scrutiny of all the financial activities of the Council. The standing panels report to OSCOM on a regular basis and bring any issues of concern to the attention of the Committee.
- The Council has in place a Medium Term Financial Strategy, updated annually, which supports the aims of the Corporate Plan.
- The quality and value for money of services provided to users is measured through the Authority's performance management system. This includes the measurement and review of performance against national and local performance indicators and actions taken to address areas for improvement. Performance is monitored regularly throughout the year by Performance Boards.
- The roles of the Cabinet, OSCOM, and other committees of the Council as well as specific roles assigned to the Leader, Deputy Leader, Portfolio Holders and senior officers of the Council are defined and documented within the Council's Constitution. The Constitution also clearly identifies the powers, duties and responsibilities delegated to the Deputy Leader, Portfolio Holders and Officers, and includes rules for how Council and committee meetings should operate and the relationship between Members and Officers.
- The conduct of Members and Officers is regulated by separate codes of conduct within the Council's Constitution. The Council's General Purposes Committee together with the General Purposes Employment Appeals and Ethics Sub-Committee promote high standards of conduct

by Members and consider complaints made against Members. A comprehensive set of Human Resources policies ensures compliance with employment legislation and promotes good personnel practices. These include disciplinary and capability processes to deal with conduct or performance which is unacceptable. These policies and procedures are regularly reviewed and revised.

- The conduct of day to day Council business is regulated through policies and procedures such as Contract Standing Orders and Financial Regulations. These accord with good professional practice and were revised in 2017. The delegations to Members and Officers are kept continually under review and revised as appropriate.
- Elected members and all officers are aware of their obligations under equality legislation, as well as the standards of behaviour and language which are expected from representatives and employees of the Council. Ongoing training is provided for both Members and officers. Equality impact assessments are built into the Council's decision-making process. The Council has reviewed its corporate equalities objectives, alongside its duties under the new gender pay gap publication requirements. The Council continues to deliver training on the Equality Act 2010 to new members of staff and to Members. The Council published information that demonstrates compliance with the Equality Duty as defined by the Equality Act 2010 on its website in March 2018.
(<https://www.testvalley.gov.uk/aboutyourcouncil/corporatedirection/equality---diversity/equalities>).
- The Council has established Disability Focus Groups that contributed towards the development of the new Corporate Plan. . The groups are helping the Council and its partners on an ongoing basis.
- Section 11 of the Children Act 2004 places key responsibilities on district councils (as a statutory partner) with regard to safeguarding children and young people. The Care Act 2014 came into force in April 2015. This now places adult safeguarding on a statutory footing and requires district councils to pay due regard to our vulnerable adults in accordance with this legislation. The Council has adopted a Safeguarding Children, Young People and Vulnerable Adults policy and procedure to ensure compliance with these duties. On a regular basis the Hampshire Safeguarding Children Board requires all statutory partners to complete a Section 11 audit as a self assessment tool to assess their position in respect of its safeguarding duties. The last audit in 2019 identified that Test Valley Borough Council is compliant with Section 11 of the Children Act.
- The Council is introducing a new Council Tax discount that will exempt Care Leavers from Council Tax until their 25th birthday.
- The Council's approach to risk management is outlined in its Risk Management Strategy. Corporate risks are reviewed on a quarterly

basis by the Council's Service Performance Boards and progress in managing the corporate risk register is reported to OSCOM on an annual basis. The Finance Portfolio Holder is the Council's Member Champion for risk management and risk management is embedded within the Council's processes e.g. reports to decision-making committees use a template which includes a section on risk assessment which must be completed before the report can be considered.

- The Council's OSCOM Audit Panel meets 3 times a year to undertake the core functions of an "audit committee". The terms of reference for the Audit Panel include:

Audit Activity

- To consider the Internal Audit Partnership Manager's annual report and opinion, and a summary of internal audit activity (actual and proposed) and the level of assurance it can give over the Council's corporate governance arrangements.
- To consider summaries of specific internal audit reports as requested.
- To consider reports dealing with the management and performance of the providers of internal audit services.
- To consider a report from internal audit on agreed actions not implemented within a reasonable timescale.
- To consider the external auditor's annual letter, relevant reports, and the report to those charged with governance.
- To consider specific reports as agreed with the external auditor.
- To comment on the scope and depth of external audit work and to ensure it gives value for money.
- To commission work from internal and external audit.

Regulatory Framework

- To maintain an overview of the Council's constitution in respect of contract standing orders, financial regulations and codes of conduct and behaviour.
 - To review any issue referred to it by the chief executive or a director, or any Council body.
 - To monitor the effective development and operation of corporate governance in the Council.
 - To monitor Council policies on whistleblowing and the anti-fraud, anti-corruption and anti-bribery strategies and the Council's complaints process.
 - To oversee the production of the authority's Annual Governance Statement and to recommend its adoption.
 - To consider the Council's arrangements for corporate governance and agreeing necessary actions to ensure compliance with best practice.
 - To consider the Council's compliance with its own and other published standards and controls.
- The Chief Executive is the Council's Head of Paid Service and has overall corporate management and operational responsibility for the way in which the Council delivers its services. The Head of Legal and

Democratic Services is designated as the Council's Monitoring Officer and has responsibilities under section 5 of the Local Government and Housing Act 1989 for ensuring that the Council complies with relevant laws and regulations and internal policies such as Contract Standing Orders. The Head of Finance is designated as the Council's Section 151 Officer with responsibility for ensuring the "proper administration of financial affairs". The Head of Finance also has responsibility under section 114 of the Local Government Finance Act 1988 for reporting to the Council and the external auditor if the Council has made, or is about to make, expenditure which is unlawful. These three statutory officers meet as necessary during the year to discuss significant corporate issues as they arise.

- The CIPFA statement on the Role of the Chief Financial Officer in Local Government (2010) requires the Chief Finance Officer to report directly to the Chief Executive and be a member of the 'Leadership Team', of equal status to other members. The Council does not strictly comply with this requirement in that the Head of Finance is not part of the Strategic Management Team (Chief Executive and two Corporate Directors) and reports to one of the Corporate Directors. However, in practice, the Head of Finance is able to report directly to the Chief Executive and Members as and when required, is a member of the Officers' Management Team, and is involved and consulted in all matters which have financial implications for the Council.
- The Council's Constitution contains a Confidential Reporting Code for Employees which safeguards "whistle-blowers" who raise legitimate concerns about the Council's actions and specifies how their concerns should be addressed. Financial Regulations require all staff to raise concerns about the use or misuse of Council resources with the Head of Finance or Internal Audit who will carry out an independent investigation of the circumstances. Internal Audit also actively encourages staff to raise matters of concern through "Speak Up" campaigns. A form is available on the Council's Intranet for staff to raise concerns (anonymously if desired) about the use of Council resources and this facility has been extended to the website so that members of the public can raise concerns in this area. The Council also has a formal complaints procedure for members of the public to raise issues, e.g. where they are dissatisfied with the service they have received, and an annual report is prepared for OSCOM summarising these complaints and how they were resolved.
- The Council has a detailed Anti-Fraud and Corruption Policy which sets out the roles, responsibilities of officers and Members and actions to be taken when fraud or corruption is discovered. In addition, an Anti-Bribery Policy has been approved to address the requirements of the Bribery Act 2010.
- The Democratic Services Manager is responsible for identifying and providing for councillors' training needs. The Council has a cross-party Member and Community Development Group which is supported by

officers from a range of services. This Group has continued to work to promote an enhanced role for councillors that focuses on them acting as a catalyst for change to encourage communities to reach their full potential. This work has brought together the needs and expectations of our communities in order to make balanced decisions, and has ensured a culture of democratic accountability is embraced throughout the Council. The Group enables the Council to develop a programme of councillor training and development that is shaped by the councillors themselves ensuring that training and development activities offered are tailored to individual councillor needs as well as the needs of councillors generally, the council and communities. This work has been shared with the Councillor Commission and has become a key part of the ongoing work that supports this national project.

- All new councillors are provided with induction training to assist them with understanding and successfully carrying out their different roles, with an ongoing programme of training and development provided on specific issues where appropriate e.g. planning, and to build key skills and knowledge.
- The Councillor Member and Community Development Group helped develop an extensive induction programme which was implemented for the new intake of councillors elected in May 2019.
- All officers also receive induction training and appropriate professional and skills training and development identified, for instance, through annual performance discussions.
- Work has continued during 2019/20 to develop and produce a People Strategy to shape the cultural direction and people management practices for the future to enable the Council to achieve its ambitions over the next 3-5 years. Whilst being able to respond to the changing needs of local government and the borough's residents this will form part of the Council's Corporate Framework with close links to the Corporate Plan and Medium Term Financial Strategy.
- The Council has in place various channels of communication with the community and other stakeholders. The Council's Consultation Portal provides a single link to all our current 'live' consultations, giving residents the opportunity to get involved, as well as access to details of the feedback from previous consultations. There are a number of tools in place to enable the Council to hear the widest range of views from local communities, in a consistent way, as part of an evidence led approach to decision making. These include:
 - Statement of community involvement.
 - Community Planning Toolkit.
 - Specialist advice and support through Community Engagement Officers and policy Team.
 - Equality objectives which set out how the Council will ensure an inclusive approach to consultation. As the Council's place-based

approach has grown partnership websites such as Andover Vision and Romsey Future have been developed, where appropriate, due to the collaborative nature of the projects e.g. Romsey South of town Centre. Consultation and project information has been posted to these websites with clear links back to relevant Council Services.). <https://www.testvalley.gov.uk/consultations>.

Publications such as Test Valley News are sent to all households and the Council's website is an important source of information about the Council and its services. The Council's website has been designed to make it more accessible to residents and businesses of Test Valley and to make it easier to undertake transactions online. A new External Communications Strategy has been produced to support the new Corporate Plan.

- The Council has identified its key partnerships and promotes good governance in those. The Council's Contract Standing Orders and Financial Regulations contain specific sections on partnerships and identify officer responsibilities in relation to the management and involvement in partnerships. Protocols and agreements are put in place for the management of significant partnerships.
- Covid 19 Governance - The Coronavirus pandemic which manifested towards the end of this reporting period has necessitated some interim amendments to processes and controls. These are being delivered in a controlled manner with appropriate advice to managers regarding the risk of error and fraud. The crisis has required the Council to be innovative and flexible in releasing funds in a swift and controlled way. Interim processes have been put in place to maximise the benefits to residents and businesses. Crises like this will inevitably attract individuals who see the opportunity for fraud. All managers have been reminded of the risk of fraud and the various forms it may take. Interim processes are designed with this particular risk in mind.

Review of effectiveness

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

The effectiveness of the governance framework is maintained and reviewed through a number of mechanisms and processes:

Full Council is ultimately responsible for maintaining, revising and ensuring compliance with the Council's Constitution. The Head of Legal and Democratic Services reviews the Constitution at least annually to ensure that it is up to date with current legislation and best practice.

- The Cabinet has responsibility for the day to day operation of the Council's business unless that business is delegated specifically to another committee (e.g. Planning, Licensing) and ensuring that governance arrangements and compliance is adequate for the conduct of that business.
- As part of the Council's open and transparent approach, Overview and Scrutiny Committee has responsibility for scrutinising the decisions of the Cabinet and reviewing the Council's policies and functions and making recommendations to the Cabinet as appropriate.
- The Council's OSCOM and its Audit Panel takes responsibility for audit and risk management issues, reviewing the Council's work in these areas and monitoring the progress and performance of both Internal and External Audit.
- The Council's General Purposes Committee together with the General Purposes Employment Appeals and Ethics Sub-Committee have the role of promoting and maintaining high standards of conduct amongst Members and assisting them to observe the Authority's Code of Conduct. The work of the Sub-Committee is supported by the appointment of three Independent Persons and Parish representatives as required by the Localism Act 2011, The General Purposes Committee may receive reports as to the operation of the Code of Conduct in addition to which the General Purposes Employment Appeals and Ethics Sub-Committee will receive complaints about Member conduct and determine such complaints and direct or recommend any further action required consistent with the Localism Act 2011 and associated regulations.
- The Council's Internal Audit team, located within the Finance Service, carries out a continuous review of the Council's systems to provide independent assurance that the control environment is effective in achieving the Council's objectives. The team objectively examines, evaluates and reports on the adequacy of the control environment as a contribution to the proper, economic, efficient and effective use of the Authority's resources. The performance of the Internal Audit team is monitored by the Council's Audit Panel and Section 151 Officer. The Internal Audit Partnership Manager presents the Internal Audit Strategy and Annual Audit Plan to the Audit Panel and produces an Annual Report giving an opinion of the adequacy of the Council's systems of internal control.
- The Council participated in an LGA Peer Challenge in October 2018 providing an independent review across the following areas:
 - Understanding of the local place and priority setting
 - Leadership of Place
 - Organisational leadership and governance
 - Financial planning and viability
 - Capacity to deliver

In addition to the five core questions, the Council asked the team to consider the Council's approach to inclusive growth and development, particularly within the principal towns of Romsey and Andover.

The Peer Team published their findings and recommendations through a feedback report. The Council was recognised as being well-led and effectively managed, with the Council's current financial position comparatively strong. The Council was found to be self-aware with good officer/member relationships with a robust approach to strategic planning in place. The peer team felt that the Council could be more confident in communicating the contribution it is making to the communities it serves.

The Council considered the findings and produced and implemented an action plan approved by Cabinet which provides a focus for how the council will take forward the recommendations highlighted by the peer team. A copy of the report can be found via the following link. [LGA Peer Review 2018](#).

A self assessment of the internal audit function's conformance with the Public Sector Internal Audit Standards (PSIAS) was carried out in March 2020. The Public Sector Internal Audit Standards are a mandatory requirement, the objectives of which are to:

- define the nature of internal auditing within the UK public sector,
- set basic principles for carrying out internal audit in the UK public sector,
- establish a framework for providing internal audit services, which add value to the organisation, leading to improved organisational processes and operations, and
- establish the basis for the evaluation of internal audit performance and to drive improvement planning.

The self assessment concluded that the function "generally" or "partially" conforms with the standards. There is evidence that the work the Internal Audit function has delivered is effective; especially around risk and performance. It contributes to and has influence in, the Authority on these areas. It is a highly respected service that is engaged with the Organisation and which provides on-going support in key areas, as well as effective assurance on controls.

Following an external assessment in March 2019 an action plan was compiled to address the gaps identified at the time and to ensure the function is fully effective both strategically and operationally. The action plan has been implemented during 2019/20 and reported to the Audit Panel. The only note to the 2019/20 Audit Opinion is in regards to the composition of the audit universe and audit plan for 2019/20. Due to the timing of the external PSIAS assessment, the audit plan for 2019/20 had already been created based on the existing audit universe which, following the assessment has been declared as inadequate. Therefore it is not possible to confirm that the Authority produced an audit plan which encompassed the key risks facing the council. By way of mitigation to this, the key fundamental system audits have been conducted under a new Risk based Auditing model providing confidence that the main financial audits of the

Council have incorporated a robust risk assessment to ensure the scope is adequate in determining the risks associated with those activities.

On the basis of Internal Audit work completed in 2019/20, the Deputy Chief Internal Auditor of Portsmouth City Council is able to provide Substantial assurance in respect of the Council's risk management, control and governance arrangements. "Substantial Assurance" means that systems in place are generally sound, but some weaknesses have been identified which may put some of the control objectives at risk. These weaknesses have been identified and form the basis of the action plan appended to this Statement.

- The Council is regularly reviewed by the External Auditor (Ernst and Young LLP) who independently examines the Council's accounts and financial systems and who presents an [Annual Audit Letter](#) to Members, the latest available covering the financial year 2018/19. This was a positive report with an unqualified opinion on the Council's accounts, system of internal control and arrangements to achieve value for money.

The emergence of the Covid 19 pandemic towards the end of March 2020 has had an unprecedented impact on the Council's governance arrangements for the remainder of the 2019/20 year and more significantly into 2020/21. These impacts will need to be evaluated, in line with government guidance and mitigation measures, and developed alongside the Council's strategic partners and Local Resilience Forum.

The date for final publication of the Council's accounts and Annual Accounts and Annual Governance Statement has also been put back to 30 November in England as a result of the Coronavirus pandemic. Once post Covid 19 assurance work has been undertaken, this Annual Governance Statement may need to be updated, prior to the new deadline, to reflect any governance changes or issues that arose.

DECLARATION

We have been advised on the implications of this review of the effectiveness of the governance framework and of any significant governance issues. A plan to address weaknesses and ensure continuous improvement of the system is in place as shown in the attached annex.

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

Signed: **Signed:**

Leader of the Council

Chief Executive

Significant governance issues

Annex

The following identifies the significant governance issues to be addressed, the proposed action, timescale and lead officer.

Issue	Action to be Taken	Timescale	Lead Officer
<p>Climate Emergency Action Plan: The Council declared a Climate Emergency in September 2019. A draft action plan, setting out how the Council will reduce carbon emissions, is to be reported to Overview and Scrutiny Committee on 18th March and Full Council in April 2020.</p>	<p>To deliver the actions contained within the Climate Emergency Action Plan.</p>	<p>31/03/21</p>	<p>G Smith</p>
<p>South of Romsey Town Centre Masterplan: Working with Romsey Future the Council is due to complete the Masterplan by June 2020. The implementation of the Masterplan will require additional resources, project management and professional advice some of which will be externally procured.</p>	<p>To effectively manage the resourcing and complexity of the implementation of the Masterplan.</p>	<p>31/03/21</p>	<p>A Ferrier/G Smith</p>
<p>Andover Town Centre Masterplan: In consultation with the local community and Andover Vision the Masterplan is due for completion by July 2020. The implementation of the Masterplan will require additional resources, project management and professional advice, some of which will be externally procured.</p>	<p>To effectively manage the resourcing and complexity of the implementation of the Masterplan.</p>	<p>31/03/21</p>	<p>C Moore/P Jackson</p>

Issue	Action to be Taken	Timescale	Lead Officer
<p>Covid 19 Response and Recovery: The Local Resilience Forum (LRF) formally activated a Recovery Co-ordinating Group (RCG) on the 25 March. This multi-agency group involves strategic partners from across the LRF to develop a recovery plan with the aim <i>“to restore the social, economic and political wellbeing of Hants & the Isle of Wight”</i>.</p>	<p>To develop a local recovery plan for the Council and its communities. To seek to align this where appropriate with the LRF/RCG plan using the LRF mechanism as way in which to influence and tap into any wider resource or opportunities and to ensure a level of consistency on the key issues.</p>	<p>31/03/21</p>	<p>A Ferrier</p>