

# Governance Committee

Monday, 16th November,  
2020  
at 5.00 pm

## PLEASE NOTE TIME OF MEETING

Virtual Meetings - Virtual meeting

This meeting is open to the public

### Members of the Committee

Councillor Keogh (Chair)  
Councillor Kataria (Vice-Chair)  
Councillor G Galton  
Councillor Harwood  
Councillor Professor Margetts  
Councillor White  
Councillor Windle

### Contacts

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## **PUBLIC INFORMATION**

### **Role of the Governance Committee**

Information regarding the role of the Committee's is contained in Part 2 (Articles) of the Council's Constitution.

#### [02 Part 2 - Articles](#)

It includes at least one Councillor from each of the political groups represented on the Council, and at least one independent person, without voting rights, who is not a Councillor or an Officer of the Council.

**Access** – Access is available for disabled people. Please contact the Democratic Support Officer who will help to make any necessary arrangements.

**Public Representations** At the discretion of the Chair, members of the public may address the meeting on any report included on the agenda in which they have a relevant interest. Any member of the public wishing to address the meeting should advise the Democratic Support Officer (DSO) whose contact details are on the front sheet of the agenda

Southampton: Corporate Plan 2020-2025 sets out the four key outcomes:

- Communities, culture & homes - Celebrating the diversity of cultures within Southampton; enhancing our cultural and historical offer and using these to help transform our communities.
- Green City - Providing a sustainable, clean, healthy and safe environment for everyone. Nurturing green spaces and embracing our waterfront.
- Place shaping - Delivering a city for future generations. Using data, insight and vision to meet the current and future needs of the city.
- Wellbeing - Start well, live well, age well, die well; working with other partners and other services to make sure that customers get the right help at the right time

**Smoking policy** – The Council operates a no-smoking policy in all civic buildings.

**Mobile Telephones:-** Please switch your mobile telephones to silent whilst in the meeting

**Use of Social Media:-** The Council supports the video or audio recording of meetings open to the public, for either live or subsequent broadcast. However, if, in the Chair's opinion, a person filming or recording a meeting or taking photographs is interrupting proceedings or causing a disturbance, under the Council's Standing Orders the person can be ordered to stop their activity, or to leave the meeting. By entering the meeting room you are consenting to being recorded and to the use of those images and recordings for broadcasting and or/training purposes. The meeting may be recorded by the press or members of the public.

Any person or organisation filming, recording or broadcasting any meeting of the Council is responsible for any claims or other liability resulting from them doing so.

Details of the Council's Guidance on the recording of meetings is available on the Council's website.

### **Dates of Meetings: Municipal Year 2020/21**

<b>2020</b>	<b>2021</b>
15 June	15 February
27 July	19 April
28 September	
16 November	
14 December	

## CONDUCT OF MEETING

### **Terms of Reference**

The terms of reference of the Governance Committee are contained in Part 3 of the Council's Constitution.

[03 - Part 3 - Responsibility for Functions](#)

### **Rules of Procedure**

The meeting is governed by the Council Procedure Rules as set out in Part 4 of the Constitution.

### **Business to be discussed**

Only those items listed on the attached agenda may be considered at this meeting.

### **Quorum**

The minimum number of appointed Members required to be in attendance to hold the meeting is 3.

## **DISCLOSURE OF INTERESTS**

Members are required to disclose, in accordance with the Members' Code of Conduct, **both** the existence **and** nature of any "Disclosable Pecuniary Interest" or "Other Interest" they may have in relation to matters for consideration on this Agenda.

### **DISCLOSABLE PECUNIARY INTERESTS**

A Member must regard himself or herself as having a Disclosable Pecuniary Interest in any matter that they or their spouse, partner, a person they are living with as husband or wife, or a person with whom they are living as if they were a civil partner in relation to:

- (i) Any employment, office, trade, profession or vocation carried on for profit or gain.
- (ii) Sponsorship:

Any payment or provision of any other financial benefit (other than from Southampton City Council) made or provided within the relevant period in respect of any expense incurred by you in carrying out duties as a member, or towards your election expenses. This includes any payment or financial benefit from a trade union within the meaning of the Trade Union and Labour Relations (Consolidation) Act 1992.

(iii) Any contract which is made between you / your spouse etc (or a body in which the you / your spouse etc has a beneficial interest) and Southampton City Council under which goods or services are to be provided or works are to be executed, and which has not been fully discharged.

(iv) Any beneficial interest in land which is within the area of Southampton.

(v) Any license (held alone or jointly with others) to occupy land in the area of Southampton for a month or longer.

(vi) Any tenancy where (to your knowledge) the landlord is Southampton City Council and the tenant is a body in which you / your spouse etc has a beneficial interests.

(vii) Any beneficial interest in securities of a body where that body (to your knowledge) has a place of business or land in the area of Southampton, and either:

- a) the total nominal value of the securities exceeds £25,000 or one hundredth of the total issued share capital of that body, or
- b) if the share capital of that body is of more than one class, the total nominal value of the shares of any one class in which you / your spouse etc has a beneficial interest that exceeds one hundredth of the total issued share capital of that class.

## **Other Interests**

A Member must regard himself or herself as having an, 'Other Interest' in any membership of, or occupation of a position of general control or management in:

Any body to which they have been appointed or nominated by Southampton City Council

Any public authority or body exercising functions of a public nature

Any body directed to charitable purposes

Any body whose principal purpose includes the influence of public opinion or policy

## **Principles of Decision Making**

All decisions of the Council will be made in accordance with the following principles:-

- proportionality (i.e. the action must be proportionate to the desired outcome);
- due consultation and the taking of professional advice from officers;
- respect for human rights;
- a presumption in favour of openness, accountability and transparency;
- setting out what options have been considered;
- setting out reasons for the decision; and
- clarity of aims and desired outcomes.

In exercising discretion, the decision maker must:

- understand the law that regulates the decision making power and gives effect to it. The decision-maker must direct itself properly in law;
- take into account all relevant matters (those matters which the law requires the authority as a matter of legal obligation to take into account);
- leave out of account irrelevant considerations;
- act for a proper purpose, exercising its powers for the public good;
- not reach a decision which no authority acting reasonably could reach, (also known as the "rationality" or "taking leave of your senses" principle);
- comply with the rule that local government finance is to be conducted on an annual basis. Save to the extent authorised by Parliament, 'live now, pay later' and forward funding are unlawful; and
- act with procedural propriety in accordance with the rules of fairness.

## AGENDA

### 1 **APOLOGIES**

To receive any apologies.

### 2 **DISCLOSURE OF PERSONAL AND PECUNIARY INTERESTS**

In accordance with the Localism Act 2011, and the Council's Code of Conduct, Members to disclose any personal or pecuniary interests in any matter included on the agenda for this meeting.

NOTE: Members are reminded that, where applicable, they must complete the appropriate form recording details of any such interests and hand it to the Democratic Support Officer.

### 3 **STATEMENT FROM THE CHAIR**

### 4 **MINUTES OF PREVIOUS MEETING (INCLUDING MATTERS ARISING)** (Pages 1 - 2)

To approve and sign as a correct record the Minutes of the meeting held on 28 September 2020 and to deal with any matters arising, attached.

### 5 **REVIEW OF PRUDENTIAL LIMITS AND TREASURY MANAGEMENT MIDYEAR 2020/21** (Pages 3 - 36)

Report of the Executive Director Finance and Commercialisation providing a review of prudential limits and treasury management midyear 2020/21.

### 6 **RISK MANAGEMENT REPORT 2020** (Pages 37 - 44)

Report of the Executive Director Finance and Commercialisation detailing the Council's Risk Management Report 2020.

### 7 **ANNUAL GOVERNANCE STATEMENT 2019-20** (Pages 45 - 64)

Report of the Chief Financial Officer seeking approval of the Council's draft Annual Governance Statement 2019-20

### 8 **STATEMENT OF ACCOUNTS 2019/20** (Pages 65 - 72)

Report of the Executive Director Finance and Commercialisation seeking approval of the Statement of Accounts 2019/20 and changes made to the draft accounts identified during the audit.

### 9 **EXTERNAL AUDIT 2019/20 AUDIT RESULTS** (Pages 73 - 134)

Report of the External Auditors detailing the 2019/20 Audit Results.

Friday, 6 November 2020

Service Director, Legal & Governance

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## GOVERNANCE COMMITTEE

### MINUTES OF THE MEETING HELD ON 28 SEPTEMBER 2020

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Present: Councillors Keogh, Kataria, G Galton, Harwood, Professor Margetts, White and Windle

12. **MINUTES OF PREVIOUS MEETING (INCLUDING MATTERS ARISING)**

**RESOLVED:** that the minutes for the Committee meeting on 27<sup>th</sup> July 2020 be approved and signed as a correct record.

13. **ANNUAL REPORT ON MEMBERS' CODE OF CONDUCT**

The Committee received and noted the report of the Deputy Chief Executive detailing the Annual Report on the Members' Code of Conduct.

The Committee noted that there had been no formal complaints received regarding Councillors in 2019/20 that required preliminary investigation.

The Committee also noted the key recommendations of a report from the Committee on Standards in Public Life which was published in January 2019 and the Local Government Associations Draft Model Code of Conduct as detailed in Appendix 1 of the report. In conclusion the Committee noted that the proposed changes were not significant, and the Council's adopted Code of Conduct had worked well to date therefore no changes were considered necessary at this time but would be reviewed when a final model Code was provided.

14. **WORKFORCE DATA REPORT**

The Committee considered the report of the Deputy Chief Executive detailing workforce data which had been requested by the Committee following the Annual Governance Statement being presented which highlighted the value of diversity across the Authority.

The Committee noted that workforce data relied on personal submission from staff and whilst an exercise had taken place to collect up to date information as part of the transition to Business World many staff elected not to disclose ethnicity and or disability therefore the overall picture was an indicative snapshot.

**RESOLVED:** That as part of the Annual Governance Statement, valuing diversity across the Authority was recognised as a key feature and the Committee in supporting this requested a six-month progress report on workforce data.

15. **INTERNAL AUDIT PROGRESS REPORT 2020-21**

The Committee received and noted the report of the Chief Internal Auditor detailing the Internal Audit Progress Report for the period 1<sup>st</sup> April – 14<sup>th</sup> September 2020.

The Committee noted that the audit plan would be more fluid this year to take account of any impact from the Covid-19 Pandemic and particularly noted the positive news in that five of the follow up audits had received higher levels of assurance.

The Committee requested that copies of the Accounts Payable and Project Governance audits be shared with Members outside of the meeting.

16. **EXCLUSION OF THE PRESS AND THE PUBLIC**

RESOLVED: that in accordance with the Council's Constitution, specifically the Access to Information Procedure Rules contained therein, the press and public be excluded from the meeting in respect of the appendix to the following item based on Categories 7(A) of Paragraph 10.4 of the Access to Information Procedure Rules.

The information contained therein was exempt as it contained information about Council Contracts and Contractors which may be deemed to be confidential and commercially sensitive. Having applied the public interest test it was not appropriate to disclose this information.

17. **STRATEGIC CONTRACTS ANNUAL REPORT**

The Committee received and noted the report of the Executive Director of Finance and Commercialisation detailing the Strategic Contracts Annual Report to the period April 2020 as detailed in the confidential appendix to the report.

The Committee moved into confidential session at the commencement of this item in order to have a full debate.



<b>DECISION-MAKER:</b>	GOVERNANCE COMMITTEE		
<b>SUBJECT:</b>	REVIEW OF PRUDENTIAL LIMITS AND TREASURY MANAGEMENT MIDYEAR 2020/21		
<b>DATE OF DECISION:</b>	16 NOVEMBER 2020		
<b>REPORT OF:</b>	<b>EXECUTIVE DIRECTOR FINANCE &amp; COMMERCIALISATION (S151 Officer)</b>		
<b><u>CONTACT DETAILS</u></b>			
<b>AUTHOR:</b>	<b>Name:</b>	Steve Harrison	<b>Tel:</b> 023 8083 4153
	<b>E-mail:</b>	<a href="mailto:steve.harrison@southampton.gov.uk">steve.harrison@southampton.gov.uk</a>	
<b>Director</b>	<b>Name:</b>	John Harrison	<b>Tel:</b> 023 8083 4897
	<b>E-mail:</b>	<a href="mailto:john.harrison@southampton.gov.uk">john.harrison@southampton.gov.uk</a>	

<b>STATEMENT OF CONFIDENTIALITY</b>	
NOT APPLICABLE	
<b>BRIEF SUMMARY</b>	
The purpose of this report is to inform Governance Committee of the Treasury Management activities and performance for 2020/21 to date against the approved Prudential Indicators for External Debt and Treasury Management.	
<b>RECOMMENDATIONS:</b>	
<b>It is recommended that Governance committee:</b>	
(i)	Notes the Treasury Management (TM) activities for 2020/21 and performance against Prudential Indicators.
(ii)	Notes that the continued proactive approach to TM has led to reductions in borrowing costs and safeguarded investment income during the year.
(iii)	Approve the removal of the overall limit for investments in MMF from 50% of total investment as detailed in paragraph 16.
(iv)	Continues to delegate authority to the S151 Officer to make any future changes which benefit the authority and to report back at the next Treasury update.
<b>REASONS FOR REPORT RECOMMENDATIONS</b>	
1.	The Treasury Management Code requires public sector authorities to determine an annual TM Strategy and now, as a minimum, formally report on their treasury activities and arrangements to Governance Committee mid-year and after the year-end. These reports enable those tasked with implementing policies and undertaking transactions to demonstrate they have properly fulfilled their responsibilities and enable those with ultimate responsibility/governance of the TM function to scrutinise and assess its effectiveness and compliance with policies and objectives.

<b>ALTERNATIVE OPTIONS CONSIDERED AND REJECTED</b>	
2.	No alternative options are relevant to this report.
<b>DETAIL (Including consultation carried out)</b>	
<b>CONSULTATION</b>	
3.	Not applicable.
<b>BACKGROUND</b>	
4.	The Local Government Act 2003 introduced a system for borrowing based largely on self-regulation by local authorities themselves. The basic principle of the new system is that local authorities will be free to borrow as long as their capital spending plans are affordable, prudent and sustainable.
5.	The Chartered Institute of Public Finance and Accountancy's Treasury Management Code (CIPFA's TM Code) requires that authorities report on the performance of the treasury management function at least twice a year (mid-year and at year end).
6.	The Authority's TM Strategy for 2020/21 was approved at Governance Committee on 10 February 2020. The 2017 Prudential Code includes a requirement for local authorities to provide a Capital Strategy, a summary document approved by full Council covering capital expenditure and financing, treasury management and non-treasury investments. The Authority's Capital Strategy, complying with CIPFA's requirement, was approved by full Council on 26 February 2020.
7.	Overall responsibility for treasury management remains with the Council. No TM activity is without risk; the effective identification and management of risk are integral to the Council's treasury management objectives. The Authority has borrowed and invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. This report covers treasury activity and the associated monitoring and control of risk.
8.	This report:
	a) is prepared in accordance with the revised CIPFA Treasury Management Code and the revised Prudential Code;
	b) presents details of capital financing, borrowing, debt rescheduling and investment transactions;
	c) reports on the risk implications of treasury decisions and transactions;
	d) gives details of the midyear position on treasury management transactions in 2020/21; and
	e) confirms compliance with treasury limits and Prudential Indicators.
9.	The report and appendices highlight that:
	a) Borrowing activities have been undertaken within the borrowing limits approved by Governance Committee on 10 February 2020.

	b)	<p>As we have an increasing borrowing requirement our overall treasury strategy is to minimise both external borrowing and investments and to only borrow to the level of its net borrowing requirement. The reasons for this are to reduce credit risk, take pressure off the Council's lending list and also to avoid the cost of carry existing in the current interest rate environment.</p> <p>Throughout the year, capital expenditure levels, market conditions and interest rate levels are monitored to minimise borrowing costs over the medium to longer term and to maintain stability.</p>
	c)	<p>For longer term investments the Council will continue to hold assets into more secure and/or higher yielding asset classes.</p> <p>Total Investment returns are estimated to be £1.2M during 2020/21 which is lower than last year end and reflects the current financial environment.</p>
	d)	<p>The differential between debt costs and investment earnings continued to be acute, resulting in the use of internal resources in lieu of borrowing often being the most cost effective means of financing capital expenditure.</p> <p>As a result the average rate for repayment of debt, (the Consolidated Loans &amp; Investment Account Rate – CLIA), at 2.71%, is lower than that budgeted and lower than last year (2.84%), this is due to rates being lower than budgeted resulting in an decrease in variable rate debt, this was partly offset by a corresponding decrease in variable interest on investments.</p> <p>We do not currently have any short term debt, but it is the intention to to borrow in the short term markets during 2020/21 to take further advantage of the current interest environment.</p>
	e)	<p>Since 2012, the Council has pursued a strategy of internal borrowing – minimising external borrowing by running down its own investment balances and only borrowing short term to cover cash flow requirements. This has both reduced the credit risk exposure and saved the Council money in terms of net interest costs.</p> <p>If opportunities arise long term borrowing would be considered as demonstrated during 2020/21 when the benchmark gilt rates for PWLB loans fell to historic lows and a £90M 15 year EIP (Equal Instalment Payment) loan was taken at 1.12% to secure this advantageous rate and add some certainty to the debt portfolio.</p>
	f)	<p>In achieving interest rate savings, the Council is exposed to interest rate risk by taking out variable debt. This was and continues to be very financially favourable in current markets but does mean that close monitoring of the markets is required to ensure that the Council can act quickly should the situation begin to change.</p>
	g)	<p>Net loan debt is expected to increase during 2020/21 from £284M to £412M (£128M) as detailed in Appendix 2, paragraph 5.</p>

		Actual debt charges for the year for borrowing (excluding HCC transferred debt and PFI schemes) is forecast at £8.4M at an average interest rate of 2.71%
	h)	<p>The initial reaction to the COVID crisis in March meant that short term liquidity became difficult and Government sought to assist cash flow by providing up front funding as far as possible, both in terms of the grants to businesses administered by the Council on its behalf and the funding to the local authority itself (under the business rates retention scheme).</p> <p>As a result of this grant funding year end investment balances were and have continued to be higher than expected.</p>
	i)	<p>Continued downward pressure on short-dated cash brought net returns on money market funds close to zero even after some managers have temporarily lowered their fees. At this stage net negative returns are not the central case of most MMF managers over the short-term, and fee waivers should maintain positive net yields, but the possibility cannot be ruled out.</p> <p>On 25th September the overnight, 1- and 2-week deposit rates on Debt Management Account Deposit Facility (DMADF) deposits dropped below zero percent to -0.03%, the rate was 0% for 3-week deposits and 0.01% for longer maturities</p>
	j)	The impact of COVID-19 will continue during the current financial year and will be reported as part of the quarterly monitoring reports and as part of the mid-year report.
10.	Appendix 1 summarises the economic outlook and events in the context of which the Council operated its treasury function during 2020/21.	
11.	<p>Appendix 2 summarises treasury activity during the year and covers:</p> <ul style="list-style-type: none"> <li>• Borrowing Requirement and Debt Management</li> <li>• Investment Activity</li> <li>• Non – Treasury Investments</li> </ul>	
12.	<p>Appendix 3 summarises quarterly benchmarking produced by our advisors and shows the breakdown of our investments and how we compare to their other clients and other English Unitary. It shows that on average the return on our internal investments at 0.43% is higher than the average of 0.27% and our overall return including the Local Authority Property Fund (income only) is 1.79% as opposed to the average of 0.90%. This has been achieved without impacting on our average credit rating which at AA- is in line with both other Local Authorities and Unitary Authorities.</p>	
<b>COMPLIANCE WITH PRUDENTIAL INDICATORS AND AMENDMENT TO 2020/21 TREASURY STRATEGY</b>		
13.	It can be confirmed that the Council has complied with its Prudential Indicators for 2020/21, approved by Governance Committee on 10 February 2020.	

14.	In compliance with the requirements of the CIPFA Code of Practice this report provides members with a summary report of TM activity during 2020/21. None of the Prudential Indicators has been breached and a prudent approach has been taken in relation to investment activity with priority being given to security and liquidity over yield. The table below summarises the Key Indicators, further details can be seen in appendix 4.																					
15.	<p><b>Table1: Key Prudential Indicators</b></p> <table border="1" data-bbox="308 477 1326 893"> <thead> <tr> <th data-bbox="308 477 970 624">Indicator</th> <th data-bbox="970 477 1118 624">Limit</th> <th data-bbox="1118 477 1326 624">Actual at 30/9/2020</th> </tr> </thead> <tbody> <tr> <td data-bbox="308 624 970 672">Authorised Limit for external debt</td> <td data-bbox="970 624 1118 672">£770M</td> <td data-bbox="1118 624 1326 672">£326M</td> </tr> <tr> <td data-bbox="308 672 970 719">Operational Limit for external debt</td> <td data-bbox="970 672 1118 719">£730M</td> <td data-bbox="1118 672 1326 719">£326M</td> </tr> <tr> <td data-bbox="308 719 970 766">Maximum external borrowing year to date</td> <td data-bbox="970 719 1118 766">£770M</td> <td data-bbox="1118 719 1326 766">£292M</td> </tr> <tr> <td data-bbox="308 766 970 813">Limit of fixed interest debt</td> <td data-bbox="970 766 1118 813">100%</td> <td data-bbox="1118 766 1326 813">82%</td> </tr> <tr> <td data-bbox="308 813 970 860">Limit of variable interest debt</td> <td data-bbox="970 813 1118 860">50%</td> <td data-bbox="1118 813 1326 860">18%</td> </tr> <tr> <td data-bbox="308 860 970 907">Limit for long term investments</td> <td data-bbox="970 860 1118 907">£100M</td> <td data-bbox="1118 860 1326 907">£30M</td> </tr> </tbody> </table>	Indicator	Limit	Actual at 30/9/2020	Authorised Limit for external debt	£770M	£326M	Operational Limit for external debt	£730M	£326M	Maximum external borrowing year to date	£770M	£292M	Limit of fixed interest debt	100%	82%	Limit of variable interest debt	50%	18%	Limit for long term investments	£100M	£30M
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Limit for long term investments	£100M	£30M																				
16.	<p>As part of the 21/22 Treasury Management Strategy our advisors, Arlingclose have proposed to remove the 50% limit for total investments in MMF but recommend that each fund should be limited to 10% of total investments and to ensure that they are split over a number and not just the highest yielding funds, which we have always done.</p> <p>Due to the current low interest environment banks are no longer paying interest for call accounts and as detailed in paragraph 9 (i) above the DMADF are now pay negative rates on investments up to 3 weeks, and although MMF yields are low at 0.01% – 0.06% they are currently the best option.</p> <p>There is a limited inter LA market for short term deposits as the market is currently cash rich and we are likely to be in a borrowing position in December so cannot lend out for too long, rates are between 0.01% and 0.03% without the ability to access the cash during term of investment.</p> <p>It is recommended that the current strategy is updated to incorporate this change for investments held for cash flow purposes, as there are occasions when we have been above this limit and would have previously used the DMADF.</p> <p>This is not seen as an increase in risk as the amount in individual funds has not increased and in fact due to our reduced investments balances in MMF are lower than they were this time last year, £25.4M as opposed to £66.4M, with a maximum investment £7M compared to £10M last year.</p>																					
<b>RESOURCE IMPLICATIONS</b>																						
<b><u>Capital/Revenue</u></b>																						
17.	This report is a requirement of the TM Strategy, which was approved at Council on 10 February 2020.																					

18.	The interest cost of financing the Authority's long term and short term loan debt is charged corporately to the Income and Expenditure account. The interest cost of financing the Authority's loan debt is estimated at £8.4M for 2020/21. This is lower than budgeted mainly due to variable interest rates being lower than those estimated, and slippage of capital spend to later years.
19.	In addition, interest earned on temporary balances invested externally is credited to the Income and Expenditure account. The current forecast for 2020/21 is £1.2M which is lower than budgeted due the current interest environment and lower than expected returns on the CCLA property investment fund.
20.	The expenses of managing the Authority's loan debt consist of brokerage and internal administration charges. These are pooled and borne by the HRA and General Fund proportionately to the related loan debt. Debt management expenses are currently in line with budget and expected to be £0.16M in 2020/21 but will be dependent on actual borrowing taken in year.
<b><u>Property/Other</u></b>	
21.	None.
<b>LEGAL IMPLICATIONS</b>	
<b><u>Statutory power to undertake proposals in the report:</u></b>	
22.	Local Authority borrowing is regulated by Part 1, of the Local Government Act 2003, which introduced the new Prudential Capital Finance System. From 1 April 2004, investments are dealt with, not in secondary legislation, but through guidance. Similarly, there is guidance on prudent investment practice, issued by the Secretary of State under Section 15(1)(a) of the 2003 Act. A local authority has the power to invest for "any purpose relevant to its functions under any enactment or for the purposes of the prudent management of its financial affairs". The reference to the "prudent management of its financial affairs" is included to cover investments, which are not directly linked to identifiable statutory functions but are simply made in the course of treasury management. This also allows the temporary investment of funds borrowed for the purpose of expenditure in the reasonably near future; however, the speculative procedure of borrowing purely in order to invest and make a return remains unlawful.
<b><u>Other Legal Implications:</u></b>	
23.	None.
<b>RISK MANAGEMENT IMPLICATIONS</b>	
24.	Not Applicable
<b>POLICY FRAMEWORK IMPLICATIONS</b>	
25.	This report has been prepared in accordance with the CIPFA Code of Practice on TM.

<b>KEY DECISION?</b>	Yes/No	
<b>WARDS/COMMUNITIES AFFECTED:</b>	NONE	
<b><u>SUPPORTING DOCUMENTATION</u></b>		
<b>Appendices</b>		
1.	2020/21 Economic Background	
2.	Treasury Activity during 2020/21	
3.	Southampton Benchmarking 30th September 2020	
4.	Compliance with Prudential Indicators	
5.	Glossary of Treasury Terms	
<b>Documents In Members' Rooms</b>		
1.	None.	
<b>Equality Impact Assessment</b>		
Do the implications/subject of the report require an Equality and Safety Impact Assessments (ESIA) to be carried out.		Yes/No
<b>Privacy Impact Assessment</b>		
Do the implications/subject of the report require a Privacy Impact Assessment (PIA) to be carried out.		Yes/No
<b>Other Background Documents</b>		
<b>Equality Impact Assessment and Other Background documents available for inspection at:</b>		
Title of Background Paper(s)		Relevant Paragraph of the Access to Information Procedure Rules / Schedule 12A allowing document to be Exempt/Confidential (if applicable)
1.	The Medium Term Financial Strategy, Budget Capital Programme 2020/21 to 2022/23 – reported to Council 26 February 2020	

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### **External Factors Impacting on Treasury during 2020/21**

A summary of the external factors in 2020-21 is provided by the council's treasury advisor, Arlingclose Ltd, and is detailed below.

**Economic background:** The spread of the coronavirus pandemic dominated during the period as countries around the world tried to manage the delicate balancing act of containing transmission of the virus while easing lockdown measures and getting their populations and economies working again. After a relatively quiet few months of Brexit news it was back in the headlines towards the end of the period as agreement between the UK and EU on a trade deal was looking difficult and the government came under fire, both at home and abroad, as it tried to pass the Internal Market Bill which could override the agreed Brexit deal, potentially breaking international law.

The Bank of England (BoE) maintained Bank Rate at 0.1% and its Quantitative Easing programme at £745 billion. The potential use of negative interest rates was not ruled in or out by BoE policymakers, but then a comment in the September Monetary Policy Committee meeting minutes that the central bank was having a harder look at its potential impact than was previously suggested took financial markets by surprise.

Government initiatives continued to support the economy, with the furlough (Coronavirus Job Retention) scheme keeping almost 10 million workers in jobs, grants and loans to businesses and 100 million discounted meals being claimed during the 'Eat Out to Help Out' (EOHO) offer.

GDP growth contracted by a massive 19.8% (revised from first estimate -20.4%) in Q2 2020 (Apr-Jun) according to the Office for National Statistics, pushing the annual growth rate down to -21.5% (first estimate -21.7%). Construction output fell by 35% over the quarter, services output by almost 20% and production by 16%. Recent monthly estimates of GDP have shown growth recovering, with the latest rise of almost 7% in July, but even with the two previous monthly gains this still only makes up half of the lost output.

The headline rate of UK Consumer Price Inflation (CPI) fell to 0.2% year/year in August, further below the Bank of England's 2% target, with the largest downward contribution coming from restaurants and hotels influenced by the EOHO scheme. The Office for National Statistics' preferred measure of CPIH which includes owner-occupied housing was 0.5% y/y.

In the three months to July, labour market data showed the unemployment rate increased from 3.9% to 4.1% while wages fell 1% for total pay in nominal terms (0.2% regular pay) and was down 1.8% in real terms (-0.7% regular pay). Despite only a modest rise in unemployment over the period, the rate is expected to pick up sharply in the coming months as the furlough scheme ends in October. On the back of this, the BoE has forecast unemployment could hit a peak of between 8% and 9%.

The US economy contracted at an annualised rate of 31.7% in Q2 2020 (Apr-Jun). The Federal Reserve maintained the Fed Funds rate at between 0% and 0.25% but announced a change to its inflation targeting regime. The move is to a more flexible form of average targeting which will allow the central bank to maintain interest rates at low levels for an extended period to support the economy even when inflation is 'moderately' above the 2% average target, particularly given it has been below target for most of the last decade.

The European Central Bank maintained its base rate at 0% and deposit rate at -0.5%.

**Financial markets:** Equity markets continued their recovery, with the Dow Jones climbing to not far off its pre-crisis peak, albeit that performance being driven by a handful of technology stocks including Apple and Microsoft, with the former up 75% in 2020. The FTSE 100 and 250 have made up around half of their losses at the height of the pandemic in March. Central bank and government stimulus

packages continue to support asset prices, but volatility remains.

Ultra-low interest rates and the flight to quality continued, keeping gilts yields low but volatile over the period with the yield on some short-dated UK government bonds remaining negative. The 5-year UK benchmark gilt yield started and ended the June–September period at -0.06% (with much volatility in between). The 10-year gilt yield also bounced around, starting at 0.21% and ending at 0.23% over the same period, while the 20-year rose from 0.56% to 0.74%. 1-month, 3-month and 12-month bid rates averaged 0.02%, 0.06% and 0.23% respectively over the period.

At the end of September, the yield on 2-year US treasuries was around 0.13% while that on 10-year treasuries was 0.69%. German bund yields remain negative across most maturities.

**Credit review:** Credit default swap spreads eased over most of the period but then started to tick up again through September. In the UK, the spreads between ringfenced and non-ringfenced entities remains, except for retail bank Santander UK whose CDS spread remained elevated and the highest of those we monitor at 85bps while Standard Chartered was the lowest at 41bps. The ringfenced banks are currently trading between 45 and 50bps.

After a busy second quarter of the calendar year, the subsequent period has been relatively quiet for credit changes for the names on our counterparty list. Fitch assigned a AA- deposit rating to Netherlands lender Rabobank with a negative outlook and prior to that, while not related to our counterparty list but quite significant, revised the outlook on the US economy to Negative from Stable while also affirming its AAA rating.

There continues to remain much uncertainty around the extent of the losses banks and building societies will suffer due to the impact from the coronavirus pandemic and for the UK institutions on our list there is the added complication of the end of the Brexit transition period on 31st December and what a trade deal may or may not look like. The institutions on Arlingclose's counterparty list and recommended duration remain under constant review, but at the end of the period no changes had been made to the names on the list or the recommended maximum duration of 35 days.

**Outlook for 2020/21:** The medium-term global economic outlook is weak. While the strict initial lockdown restrictions have eased, coronavirus has not been suppressed and second waves have prompted more restrictive measures on a regional and national basis. This ebb and flow of restrictions on normal activity will continue for the foreseeable future, at least until an effective vaccine is produced and importantly, distributed.

The global central bank and government responses have been significant and are in many cases ongoing, maintaining more stable financial, economic and social conditions than otherwise. This has supported a sizeable economic recovery in Q3.

However, the scale of the economic shock to demand, on-going social distancing measures, regional lock downs and reduced fiscal support will mean that the subsequent pace of recovery is limited. Early signs of this are already evident in UK monthly GDP and PMI data, even before the latest restrictions.

This situation will result in central banks maintaining low interest rates for the medium term. In the UK, Brexit is a further complication. Bank Rate is therefore likely to remain at low levels for a very long time, with a distinct possibility of being cut to zero. Money markets have priced in a chance of negative Bank Rate.

Longer-term yields will also remain depressed, anchored by low central bank policy rates, expectations for potentially even lower rates and insipid inflation expectations. There is a chance yields may follow a slightly different path in the medium term, depending on investor perceptions of growth and inflation, or if the UK leaves the EU without a deal.

Arlingclose expects Bank Rate to remain at the current 0.10% level and additional monetary loosening in the future most likely through further financial asset purchases (QE). While Arlingclose's central case

for Bank Rate is no change from the current level of 0.1%, further cuts to Bank Rate to zero or even into negative territory cannot be completely ruled out.

Gilt yields are expected to remain very low in the medium term. Shorter-term gilt yields are currently negative and will remain around zero or below until either the Bank of England expressly rules out negative Bank Rate or growth/inflation prospects improve.

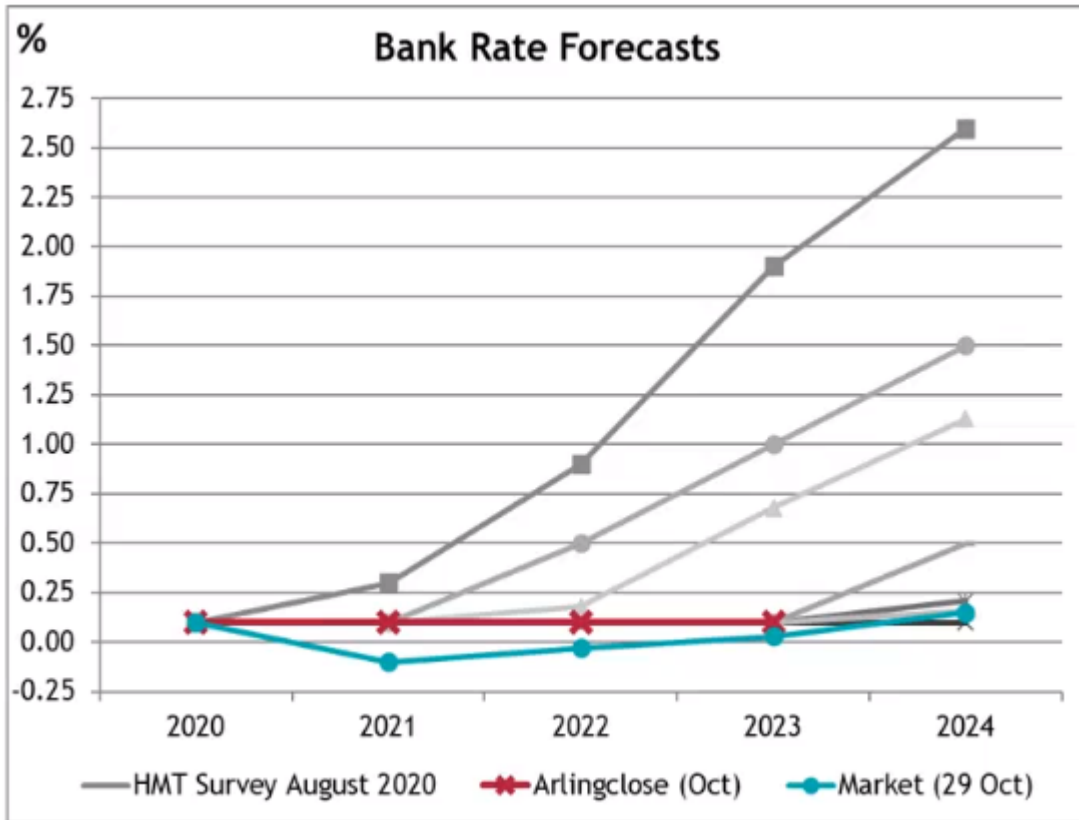
Downside risks remain in the near term, as the government dials down its fiscal support measures, reacts to the risk of a further escalation in infection rates and the Brexit transition period comes to an end.

## Forecast interest Rates

The following forecast interest forecast are set against a background of:

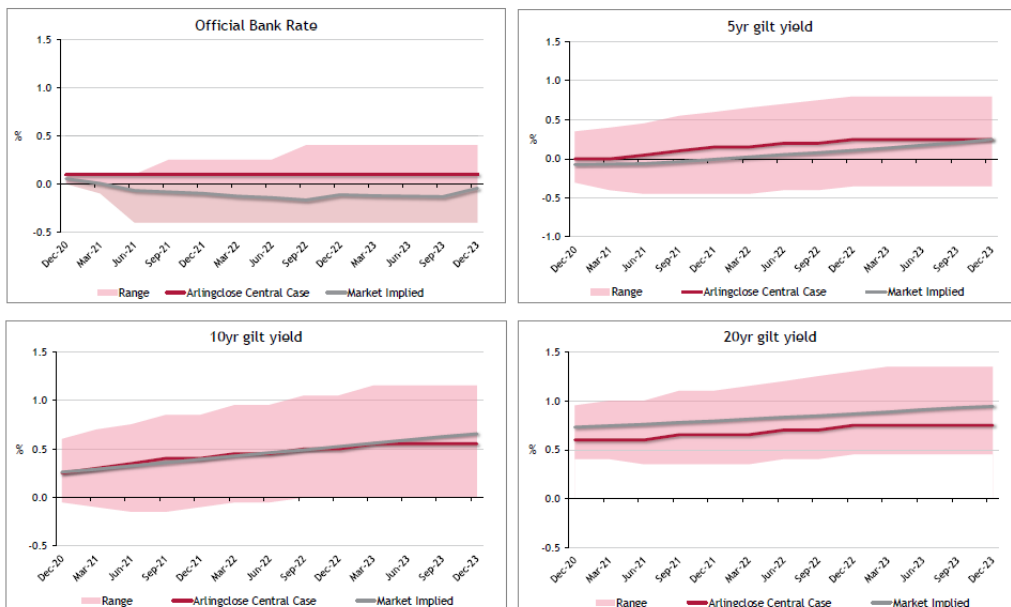
- Arlingclose expects Bank Rate to remain at the current 0.10% level.
- We expect additional monetary loosening in the future, most likely through further financial asset purchases. Our central case for Bank Rate is no change, but further cuts to Bank Rate to zero or even into negative territory, cannot be completely ruled out.
- Gilt yields will remain very low in the medium term. Shorter term gilt yields are currently negative and will remain around zero or below until either the Bank expressly rules out negative Bank Rate or growth/inflation prospects improve.
- Downside risks remain in the near term, as the government dials down its fiscal support measures, reacts other risk of a further escalation in infection rates and the Brexit transition period comes to an end

	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23
<b>Official Bank Rate</b>													
Upside risk	0.00	0.00	0.00	0.15	0.15	0.15	0.15	0.30	0.30	0.30	0.30	0.30	0.30
Arlingclose Central Case	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
Downside risk	-0.10	-0.20	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50
<b>3-month money market rate</b>													
Upside risk	0.05	0.05	0.05	0.10	0.10	0.15	0.20	0.30	0.30	0.30	0.30	0.30	0.30
Arlingclose Central Case	0.10	0.10	0.15	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20
Downside risk	-0.40	-0.40	-0.45	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50
<b>5yr gilt yield</b>													
Upside risk	0.35	0.40	0.40	0.45	0.45	0.50	0.50	0.55	0.55	0.55	0.55	0.55	0.55
Arlingclose Central Case	0.00	0.00	0.05	0.10	0.15	0.15	0.20	0.20	0.25	0.25	0.25	0.25	0.25
Downside risk	-0.30	-0.40	-0.50	-0.55	-0.60	-0.60	-0.60	-0.60	-0.60	-0.60	-0.60	-0.60	-0.60
<b>10yr gilt yield</b>													
Upside risk	0.35	0.40	0.40	0.45	0.45	0.50	0.50	0.55	0.55	0.60	0.60	0.60	0.60
Arlingclose Central Case	0.25	0.30	0.35	0.40	0.40	0.45	0.45	0.50	0.50	0.55	0.55	0.55	0.55
Downside risk	-0.30	-0.40	-0.50	-0.55	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50
<b>20yr gilt yield</b>													
Upside risk	0.35	0.40	0.40	0.45	0.45	0.50	0.50	0.55	0.55	0.60	0.60	0.60	0.60
Arlingclose Central Case	0.60	0.60	0.60	0.65	0.65	0.65	0.70	0.70	0.75	0.75	0.75	0.75	0.75
Downside risk	-0.20	-0.20	-0.25	-0.30	-0.30	-0.30	-0.30	-0.30	-0.30	-0.30	-0.30	-0.30	-0.30
<b>50yr gilt yield</b>													
Upside risk	0.35	0.40	0.40	0.45	0.45	0.50	0.50	0.55	0.55	0.60	0.60	0.60	0.60
Arlingclose Central Case	0.50	0.50	0.50	0.50	0.55	0.55	0.60	0.60	0.65	0.65	0.65	0.65	0.65
Downside risk	-0.20	-0.20	-0.25	-0.30	-0.30	-0.30	-0.30	-0.30	-0.30	-0.30	-0.30	-0.30	-0.30



Charts show the Arlingclose central case along with upside and downside risks: Arlingclose judges that the risk around the Bank Rate forecast is weighted to the downside. The risks for the gilt yield forecasts are broadly balanced.

PWLB Certainty Rate (Maturity Loans) = Gilt yield + 1.80%  
 PWLB HRA Rate (Maturity Loans) = Gilt yield + 0.80%  
 PWLB Infrastructure Rate (Maturity Loans) = Gilt yield + 0.60%



## TREASURY MANAGEMENT ACTIVITY DURING 2020/21

Appendix 2

### BORROWING REQUIREMENT AND DEBT MANAGEMENT

1. Based on the latest capital programme the Authority and resources available to the authority there is an estimated net increase in borrowing at the 31<sup>st</sup> March 2021 of £110.5M. The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR) while useable reserves and working capital represent the underlying resources available for investments. These are the core drivers of TM Activity and the year-on-year change is summarised in table 1 below.
2. The Authority's current strategy is to maintain borrowing and investments below their underlying levels in order to reduce risk and keep interest costs low which has resulted in a forecast decrease of our internal borrowing of £33.1M as a result of lower useable reserves.

*Table 1 – Balance Sheet Summary*

	31-Mar-20 Actual	31-Mar-21 Strategy	31-Mar-21 Forecast	31-Mar-21 Forecast Movement in year
	£M	£M	£M	£M
General Fund CFR	339.58	571.81	404.86	65.28
Housing CFR	169.13	207.52	177.82	8.69
<b>Total CFR</b>	<b>508.71</b>	<b>779.33</b>	<b>582.68</b>	<b>73.97</b>
Less Other Debt Liabilities*	(67.83)	(64.43)	(64.43)	3.40
<b>Loans CFR</b>	<b>440.88</b>	<b>714.90</b>	<b>518.25</b>	<b>77.37</b>
Less External Borrowing	(277.23)	(231.59)	(387.76)	(110.52)
Internal (over) Borrowing	<b>163.65</b>	<b>483.31</b>	<b>130.50</b>	<b>(33.15)</b>
Less Usable Reserves	(174.55)	(121.36)	(141.43)	33.12
Less Working Capital Surplus	(58.01)	(82.94)	(58.01)	0.00
<b>New Borrowing or (Investments)</b>	<b>(68.91)</b>	<b>279.01</b>	<b>(68.94)</b>	<b>(0.03)</b>

*\* finance leases, PFI liabilities and Transferred debt that form part of the authority's total debt*

3. The forecast movement in the CFR is one of the Prudential Indicators (PIs). When the strategy was last updated in February 2020, the forecast CFR for 31<sup>st</sup> March 2021 was £779.33M, the current forecast is £582.68M, a reduction of £167M. This decrease reflects slippage in borrowing on the capital programme, £166.9M on the General Fund and £29.7M on HRA. Forecast Movement in year is shown in the following table.

*Table 2 – Capital Financing Requirement Movement in year*

Capital Financing Requirement	General Fund £M	HRA £M	Total £M
Balance Brought forward	339.58	169.13	508.71
New Borrowing	75.21	8.69	83.89
MRP	(6.52)		(6.52)
Appropriations (to) from HRA	0.00	0.00	0.00
Movement in Other Liabilities	(3.40)		(3.40)
<b>Estimated CFR 31 March 2021</b>	<b>404.86</b>	<b>177.82</b>	<b>582.68</b>

4. The movement in actual external debt and usable reserves combine to identify the Authority's borrowing requirement and potential investment strategy in the current and future years. This is shown in the tables below together with activity in the year.

5. **Table 3: Borrowing and Investment Position**

	31-Mar-20 Actual £M	31-Mar-20 Average %	30-Sep-20 Actual £M	30-Sep-20 Average %	31-Mar-21 Forecast £M	31-Mar-21 Forecast %
<b>Long Term Borrowing</b>						
Public Works Loan	257.87	2.88	250.10	2.70	368.40	2.71
LOBO Loans from Banks	9.00	4.89	9.00	4.86	9.00	4.86
	<b>266.87</b>	<b>2.95</b>	<b>259.10</b>	<b>2.73</b>	<b>377.40</b>	<b>2.78</b>
<b>Short Term Borrowing</b>						
Other Local Authorities	10.00	0.92	0.00	0.39	10.00	0.64
Other	0.36	0.92	0.36	0.39	0.36	0.64
<b>Total External Borrowing</b>	<b>277.23</b>	<b>2.85</b>	<b>259.46</b>	<b>2.73</b>	<b>387.76</b>	<b>2.71</b>
<b>Other Long Term Liabilities</b>						
PFI Schemes	54.00	9.01	52.48	8.82	50.96	9.16
Deferred Debt Charges (HCC)	13.83	2.66	13.64	2.61	13.46	2.70
<b>Total Gross External Debt</b>	<b>345.06</b>	<b>3.87</b>	<b>325.59</b>	<b>4.08</b>	<b>452.18</b>	<b>3.65</b>
<b>Investments:</b>						
<b>Managed In-House</b>						
Government & Local Authority	0.00	0.00	(10.00)	0.11		
Cash (Instant access)	(31.11)	0.34	(30.81)	0.07	(10.00)	0.03
Cash (Notice Account)	0.00	0.00	0.00	0.00	0.00	0.00
Long Term Bonds	(3.01)	5.30	(3.01)	5.30	(3.00)	5.30
<b>Managed Externally</b>						
Pooled Funds (CCLA) & Shares	(27.02)	4.35	(27.00)	3.84	(27.02)	3.00
<b>Total Investments</b>	<b>(61.15)</b>	<b>4.44</b>	<b>(70.82)</b>	<b>3.89</b>	<b>(40.02)</b>	<b>2.43</b>
<b>Net Debt</b>	<b>283.91</b>		<b>254.77</b>		<b>412.16</b>	

6. **Table 4: Forecast Movement in Gross External Debt during the year**

<b>Movement during the year</b>	<b>2019/20 Actual £M</b>	<b>31-Mar-21 Movement £M</b>	<b>2020/21 Forecast £M</b>
Long-term borrowing Carried Forward	206.34		266.87
Maturities in year	(39.47)		(35.25)
New borrowing in year	100.00		145.77
<b>Net Long Term Borrowing</b>	<b>266.87</b>	<b>110.52</b>	<b>377.40</b>
Short-term borrowing Carried Forward	40.36		10.36
Net Maturities in year	(40.36)		(10.36)
Net new borrowing in year	10.36		10.36
<b>Net Short Term Borrowing</b>	<b>10.36</b>	<b>0.00</b>	<b>10.36</b>
<b>Total Borrowing at 31st March</b>	<b>277.23</b>	<b>110.52</b>	<b>387.76</b>
<b>Other Debt Liabilities</b>	<b>67.83</b>	<b>(3.40)</b>	<b>64.43</b>
<b>Total Debt at 31st March</b>	<b>345.06</b>	<b>107.12</b>	<b>452.18</b>

Please note that these figures do not reflect the accounting convention of moving loans maturing in the year from long term to short term so will differ from the maturity analysis.

7. The maturity analysis of the Council's actual debt at 30<sup>th</sup> September 2020 is shown in the table below. Debt due in one year includes both short term and long-term

loans due in year, LOBO loans are shown as uncertain as although they are within the call option they are unlikely to be called in the current interest environment.

8. **Table 5: Maturity Structure of Borrowing**

	Lower Limit	Upper Limit	Actual Debt as at 30/09/2020	Average Rate as at 30/09/2020	% of Debt	Compliance with set Limits?
Debt Maturity Profile	%	%	£M	%		
Under 12 months	0	50	31.11	2.08%	12	Yes
12 months and within 24 months	0	50	8.50	2.69%	3	Yes
24 months and within 5 years	0	50	18.00	1.12%	7	Yes
5 years and within 10 years	0	55	30.00	1.12%	12	Yes
10 years and within 15 years	0	60	34.00	1.66%	13	Yes
15 years and within 20 years	0	60	5.00	4.60%	2	Yes
25 years and within 30 years	0	60	25.00	4.62%	10	Yes
30 years and within 35 years	0	60	36.70	3.54%	14	Yes
35 years and within 40 years	0	65	47.90	3.59%	18	Yes
40 years and within 45 years	0	75	14.25	3.70%	5	Yes
Uncertain*	0	5	9.00	4.86%	3	Yes
			<b>259.46</b>	<b>4.86%</b>	<b>100</b>	

\* Lobo's

**Borrowing Update**

9. On 9<sup>th</sup> October 2019 the PWLB raised the cost of certainty rate borrowing by 1% to 1.8% above UK gilt yields making it relatively expensive. Market alternatives are available and new products will be developed; however, the financial strength of individual authorities will be scrutinised by investors and commercial lenders.

The Chancellor's March 2020 Budget statement included significant changes to Public Works Loan Board (PWLB) policy and launched a wide-ranging consultation on the PWLB's future direction. Announcements included a reduction in the margin on new HRA loans to 0.80% above equivalent gilt yields the value of this discount is 1% below the rate at which the authority usually borrows from the PWLB), available from 12<sup>th</sup> March 2020 and £1.15bn of additional "infrastructure rate" funding at gilt yields plus 0.60% to support specific local authority infrastructure projects for England, Scotland and Wales for which there is a bidding process.

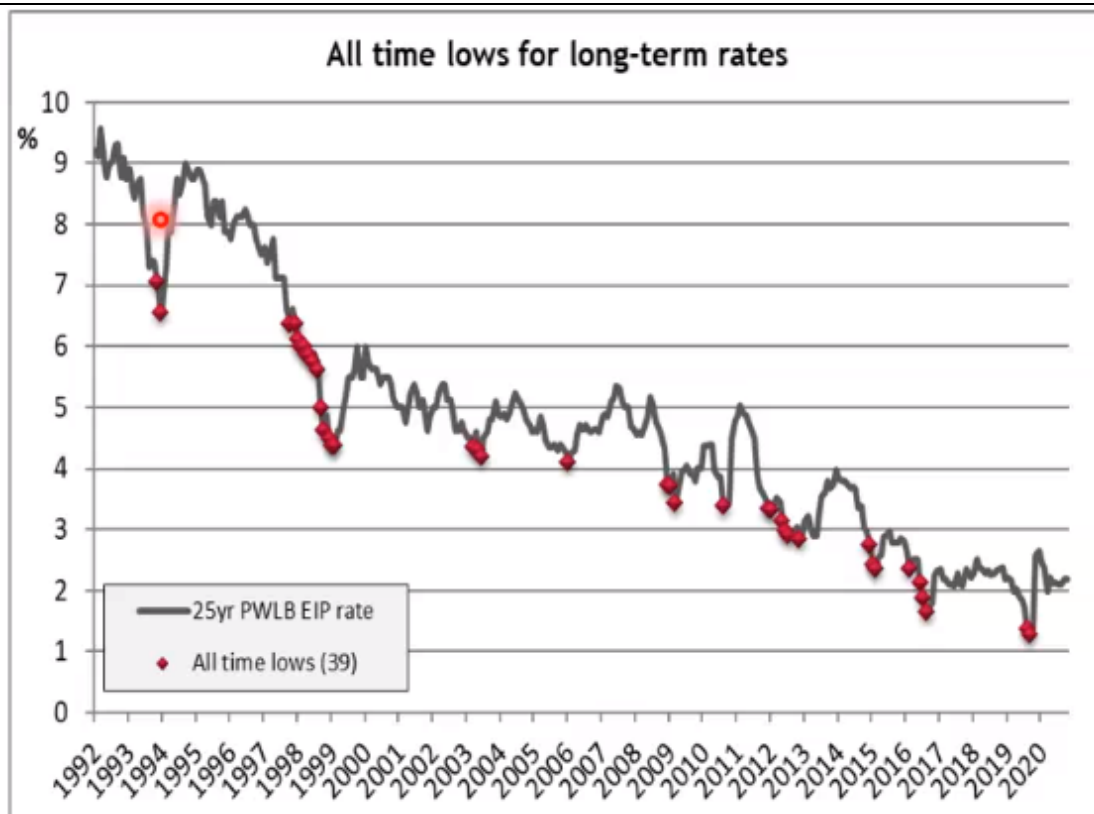
The consultation titled "Future Lending Terms" allows key stakeholders to contribute to developing a system whereby PWLB loans can be made available at improved margins to support qualifying projects. It contains proposals on allowing authorities that are not involved in "debt for yield" activity to borrow at lower rates as well as stopping local authorities using PWLB loans to buy commercial assets primarily for yield without impeding their ability to pursue their core policy objectives of service delivery, housing, and regeneration. The consultation also broaches the possibility of slowing, or stopping, individual authorities from borrowing large sums in specific circumstances.

The consultation closed on 31<sup>st</sup> July 2020 with the announcement and implementation of the new lending terms expected towards the end of year or early next year.

10. **Municipal Bonds Agency (MBA)**: The MBA revised its standard loan terms and framework agreement. Guarantees for the debt of other borrowers are now proportional and limited and a requirement to make contribution loans in the event of a default by a borrower has been introduced. The agency has issued 5-year floating rate and 40-year fixed rate bonds in 2020, in both instances Lancashire County Council is the sole borrower and guarantor.



	As reported previously if the Authority were to consider future borrowing through the MBA, it would report to full council before engaging and seek advice from our financial advisors.
<b><u>Borrowing Strategy during Period</u></b>	
11.	At 30 <sup>th</sup> September 2020 the Authority held £259.46M of loans, (a decrease of £17.77M since 31 <sup>st</sup> March 2020), as part of its strategy for funding previous and current years' capital programmes. Outstanding loans are summarised in Table 3 and 5 above.
12.	The Authority's chief objective when borrowing has been to strike an appropriately low risk balance between securing low interest costs and achieving cost certainty over the period for which funds are required, with flexibility to renegotiate loans should the Authority's long-term plans change being a secondary objective.
13.	In keeping with these objectives, no new borrowing was undertaken, and existing loans were allowed to mature whilst useable cash levels have remained above our minimum level of £10M. However this will not be sustainable as cash level drop through the year and we expect to have to borrow up to £110M to cover the ongoing capital programme (£84M) and to refinance debt maturing in year. It is expected that short term borrowing will be taken from the end of December until a decision has been taken with regards to long term borrowing.
14.	The authority has an increasing CFR (see table 1 above) and even with increased borrowing we expect to remain below our CFR limit. It is estimated that the authority will have internal borrowing of £130.5M at the end of the year. This strategy enables the Authority to reduce net borrowing costs (despite foregone investment income) and reduce overall treasury risk.
15.	The PWLB were the Council's preferred source of long-term borrowing given the transparency and control that its facilities continue to provide, but PWLB funding margins have lurched quite substantially in the last year and there remains a strong argument for diversifying funding sources, particularly if rates can be achieved on alternatives which are below gilt yields plus 0.80%, i.e. the PWLB HRA borrowing rate. The Authority will evaluate and pursue these lower cost solutions and opportunities with its advisor Arlingclose.
16.	However due to the continued depressed markets and the 'cost of carry' associated with long term debt, the Council will defer long term borrowing and continue to use internal resources to finance the capital programme to minimise the cost of TM by keeping debt interest payments as low as possible without compromising the longer-term stability of the portfolio. This will be kept under review during 2020/21 with the need to resource an increasing capital programme and if opportunities arise as with the borrowing taken in 2020/21. Our advisors assist with this 'cost of carry' and breakeven analysis.
17.	The Authority's borrowing decisions are not predicated on any one outcome for interest rates and a balanced portfolio of short- and long-term borrowing will be maintained.
18.	The chart below shows the pattern of the 25 year PWLB rate since 1992, the rise in 2019 is where the 1% over gilts was implemented, but otherwise it has been a downward trend.



**Lender’s Option Borrower’s Option Loans (LOBOs)**

19. The council continues to hold £9M of LOBO loans where the lender has the option to propose an increase in the interest rate at set dates, following which the council has the option to either accept the new rate or to repay the loan at no additional cost. All of these LOBOS had options during the year, none of which were exercised by the lender, but if they were it is likely that they would be replaced by a PWLB loan.

**Other Debt Activity**

20. Although not classed as borrowing the Council has previously raised capital finance via Private Finance Initiative (PFI). The mid-year balance was £52.5M and will fall to £51M after further repayment in year.

21. In addition, the Authority holds debt in relation to debt transferred from Hampshire County Council on the 1<sup>st</sup> April 1997 when we became a unitary authority which is being repaid over 50 years at £0.4M per annum, the balance at 30<sup>th</sup> September was £13.5M.

**INVESTMENT ACTIVITY**

22. Both the CIPFA and MHCLG’s Investment Guidance requires the council to invest prudently and have regard to the security and liquidity of investments before seeking the optimum yield. The Authority’s objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low income returns.

23. The initial reaction to the COVID crisis in March meant that short term liquidity became difficult and Government sought to assist cash flow by providing up front funding as far as possible, both in terms of the grants to businesses administered by the Council on its behalf and the funding to the local authority itself (under the business rates retention scheme).

24. Continued downward pressure on short-dated cash brought net returns on money market funds close to zero even after some managers have temporarily lowered their fees. At this stage net negative returns are not the central case of most MMF managers over the short-term, and fee waivers should maintain positive net yields, but the possibility cannot be ruled out.

On 25<sup>th</sup> September the overnight, 1- and 2-week deposit rates on Debt Management Account Deposit Facility (DMADF) deposits dropped below zero percent to -0.03%, the rate was 0% for 3-week deposits and 0.01% for longer maturities

The impact of COVID-19 will continue during the year and will be reported at each quarter and as part of the mid-year Treasury Report to Governance Committee.

25. As a result of the grant funding year end investment balances were higher than expected and have remained so during the year to date but are expected to fall throughout the year to an estimated £40M by the end of the year, as we have a number of debt maturities and an ongoing capital programme, but this will be dependent on actual capital spend and movement in balances. Investment balances have ranged between £114M and £61M during the year and are currently £71M.

This supports our decision to only borrow for cash flow purposes at this stage as savings on borrowing costs more than offset the loss on short term investments.

Movement in year is summarised in the table below:

26. **Table 6: Investment activity during the year**

	Balance on 01/04/2020	Investments Repaid	New Investments	Balance on 30/09/2020	(Increase/ Decrease in Investment for Year	Average Life of Investments
	£M	£M	£M	£M	£M	Life
Multi- National Bonds (not subject to bail in)	(3.01)			(3.01)	(0.00)	1.75 years
Money Market Funds and Call Account	(31.11)	201.72	(201.42)	(30.81)	0.30	1 day
Government & Local Authority	0.00	159.00	(169.00)	(10.00)	(10.00)	
Managed Externally (CCLA Pooled funds)	(27.02)	0.02		(27.00)	0.02	Unspecified
<b>Total Investments</b>	<b>(61.14)</b>	<b>360.74</b>	<b>(370.42)</b>	<b>(70.82)</b>	<b>(9.68)</b>	

27. Security of capital has remained the council's main investment objective. This has been maintained by following the Authority's counterparty policy as set out in its TM Strategy Statement for 2020/21. The council has adopted a voluntary measure of its exposure to credit risk by monitoring the value-weighted average credit rating of its investment portfolio, which is supplied by our advisors. This is calculated by applying a score to each investment (AAA=1, AA+=2, etc.) and taking the arithmetic average, weighted by the size of each investment.

	Target	Actual
Portfolio average credit rating	A	AA-

28.	Counterparty credit quality was assessed and monitored with reference to credit ratings (the Authority's minimum long-term counterparty rating is A-) across rating agencies Fitch, S&P and Moody's); for financial institutions analysis of funding structure and susceptibility to bail-in, credit default swap prices, financial statements, information on potential government support and reports in the quality financial press. The authority also used secured investments products that provide collateral in the event that the counterparty cannot meet its obligations for repayment.
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### Credit Developments and Credit Risk Management

29.	<p>The UK sovereign rating was downgraded to AA- in March which was followed by a number of actions on UK and also non-UK banks from early April onwards, this then stabilised, and it has been relatively quiet for credit changes for the names on our counterparty list.</p> <p>There continues to remain much uncertainty around the extent of the losses banks and building societies will suffer due to the impact from the coronavirus pandemic and for the UK institutions on our list there is the added complication of the end of the Brexit transition period on 31<sup>st</sup> December and what a trade deal may or may not look like. The institutions on Arlingclose's counterparty list and recommended duration remain under constant review, but at the end of the period no changes had been made to the names on the list or the recommended maximum duration of 35 days.</p> <p>Further information is available in Appendix 1, Economic Background.</p>
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30.	<p><b>Benchmarking:</b> Our advisors produce quarterly benchmarking which shows the breakdown of our investments and how we compare to their other clients and other English Unitary. Details can be seen in Appendix 3. It shows that on average the return on our internal investments at 0.43% is higher than the average of 0.27% and our overall return including the Local Authority Property Fund (income only) is 1.79% as opposed to the average of 0.90%. This has been achieved without impacting on our average credit rating which at AA- is in line with both other Local Authorities and Unitary Authorities.</p>
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### Liquidity Management

31.	<p>In keeping with the MHCLG's Guidance on Investments, the Council maintained a sufficient level of liquidity through the use of Money Market Funds and call accounts. There is no perceived risk that the Council will be unable to raise finance to meet its commitments. The Council also has to manage the risk that it will be exposed to replenishing a significant proportion of its borrowing at a time of unfavourable interest rates. The Council would only borrow in advance of need where there is a clear business case for doing so and will only do so for the current capital programme or to finance future debt maturities.</p>
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### Externally Managed Funds

32.	<p>The Council has invested £27M in property funds which offer the potential for enhanced returns over the longer term but will be more volatile in the shorter term. These funds are managed by professional fund managers which allows the Authority to diversify into asset classes other than cash without the need to own and manage the underlying investments.</p>
33.	<p>Because these funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued suitability in meeting the Authority's investment objectives is regularly reviewed.</p> <p>Strategic fund investments are made in the knowledge that capital values will move both up and down on months, quarters and even years; but with the confidence that</p>

over a three to five-year period total returns will exceed cash interest rates. In light of their performance over the long-term and the Authority’s latest cash flow forecasts, investment in these funds has been maintained.

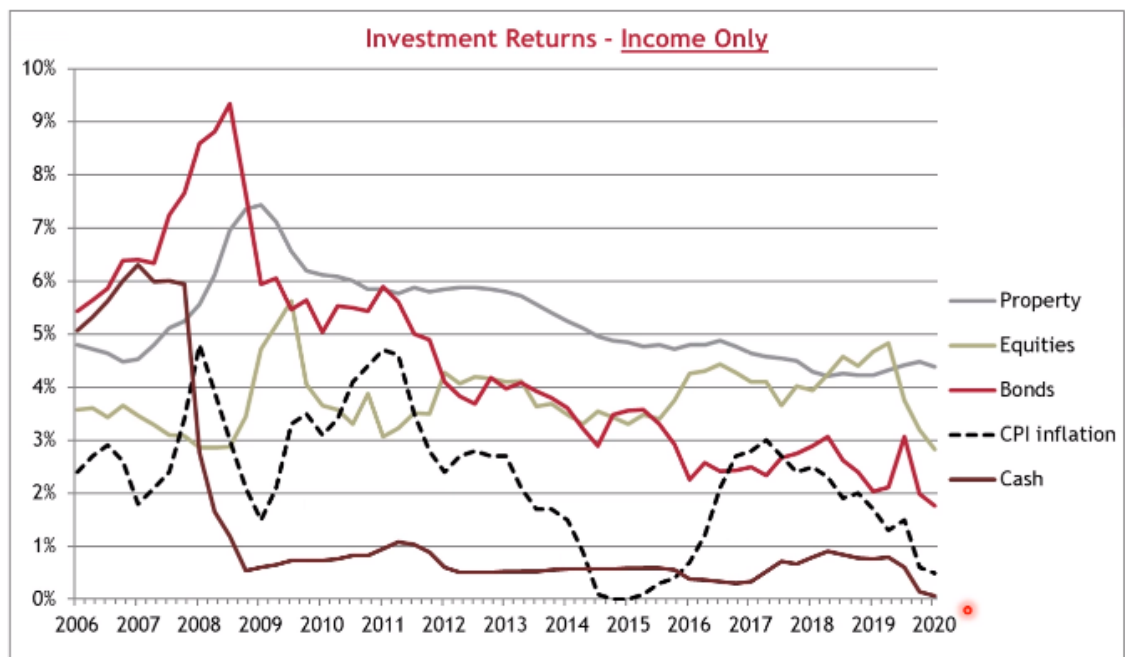
34. During 2019/20 this investment returned £1.2M at an average yield of 3.84% against the initial investment, however since the onset of the COVID-19 pandemic and the current global economic environment, the value of the fund fell to £26.47M at 31<sup>st</sup> March 2020 a reduction of £0.53M against the original investment.

This trend has continued into 2020/21 and the fund is currently valued at £25.37M, £1.63M lower than original investment. This notional “loss” will only be a cost to the Authority at the point the investment is sold as the Authority is using the alternative fair value through profit and loss (FVPL) accounting and can defer the funds’ fair value losses to the Pooled Investment Fund Adjustment Account until 2023/24, by which time it is anticipated that the global economic environment will have improved.

The estimated return for the year has improved from the last quarter and is now expected to be about 85% of that for 2019/20, £1.03M.

35. The chart below demonstrated that despite the recent fall in returns that property is the highest returning investment especially in relation to cash.

## Investment Returns and Inflation



### Non – Treasury Investments

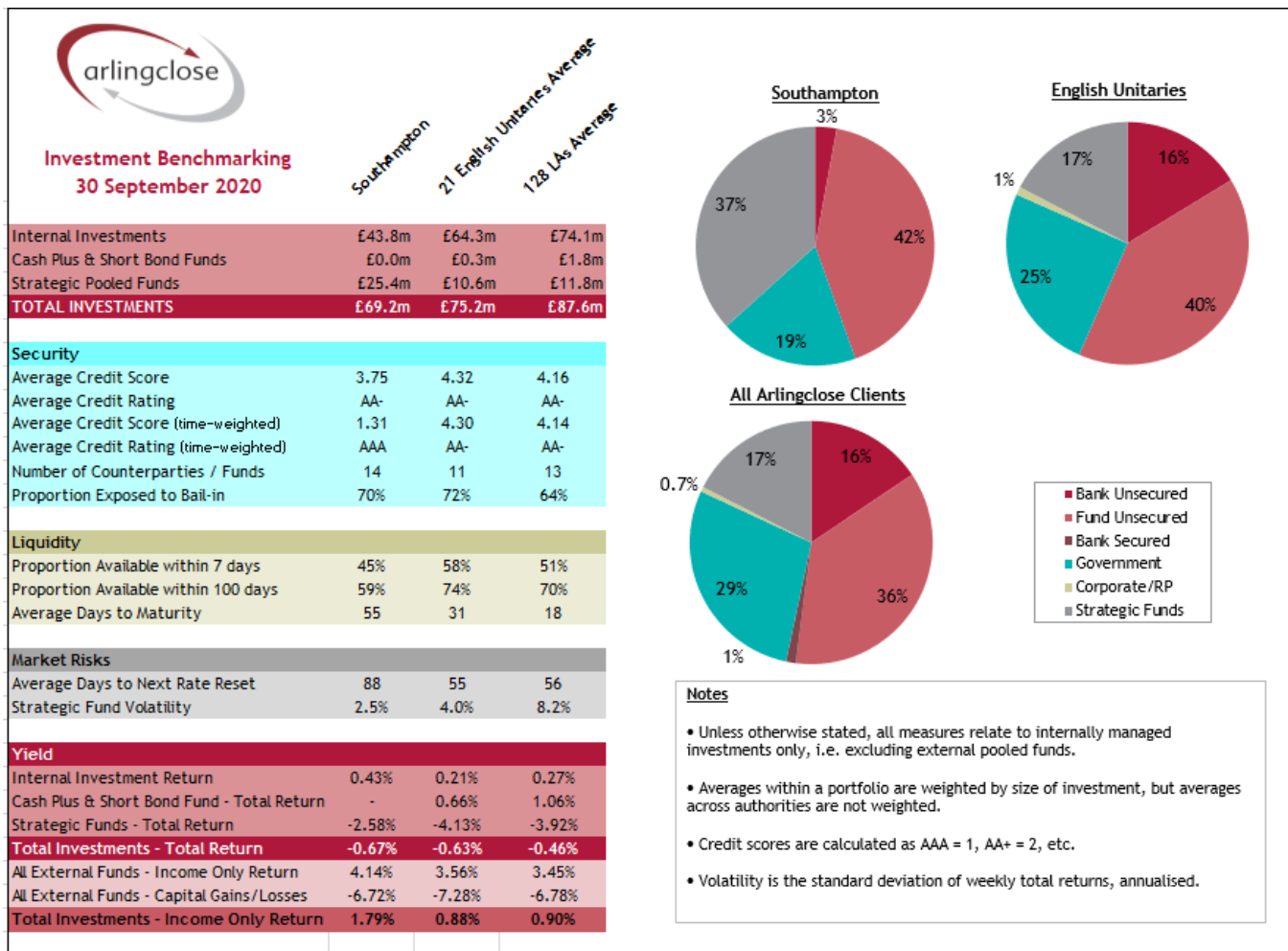
36. The definition of investments in CIPFA’s revised Treasury Management Code now covers all the financial assets of the Authority as well as other non-financial assets which the Authority holds primarily for financial return. This is replicated in MHCLG’s Investment Guidance, in which the definition of investments is further broadened to also include all such assets held partially for financial return.

37. Between 2016 and 2017, SCC implemented a strategy to invest in commercial properties with the expected return on investment being used to fund council services, known as the Property investment fund (PIF).

38. All of the properties remain fully let and the tenants are meeting their financial obligations under the leases. The rate of return on these investment in 2020/21 is

	expected to be 6.03% gross and 2.13% net (after borrowing costs of £1.2M) which represents a contribution to the revenue account of around £0.63M.
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### Southampton Benchmarking Scores 30<sup>th</sup> September 2020



The above highlights:

- We have lower internal investments than both the average English Unitary and other Local Authorities £44M compared to £64M and £74M and demonstrates our policy of minimising investments to avoid borrowing, lowering both investment risk and cost of carry (difference in interest earned on investments and that of borrowing which is usually higher). These investments are held for cash flow purposes and money markets are primarily used at the moment as they offer a higher rate than bank call accounts and are available on demand unlike short term fixed term deposits that offer a similar rate of return.
- Internal investments currently have a higher than average yield at 0.43%.
- We have maintained an average credit rating in line with the average English Unitary and other Local Authorities and above our minimum rating of A- whilst achieving a higher income return at 1.79% compared to 0.88% and 0.90%.
- Our Strategic Investments at 37% is higher than the average at 17% and the income yield on these is 4.14% is higher than average of 2.56% and 3.45%.

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# Agenda Item 5

## COMPLIANCE WITH PRUDENTIAL INDICATORS DURING 2020/21 Appendix 4

The Local Government Act 2003 requires the Authority to have regard to the Chartered Institute of Public Finance and Accountancy's Prudential Code for Capital Finance in Local Authorities (the Prudential Code) when determining how much money it can afford to borrow. The objectives of the Prudential Code are to ensure, within a clear framework, that the capital investment plans of local authorities are affordable, prudent and sustainable, and that treasury management decisions are taken in accordance with good professional practice. To demonstrate that the Authority has fulfilled these objectives, the Prudential Code sets out a number of indicators that must be set and monitored each year.

The Council complied with all of its Prudential Indicators. Details of the performance against key indicators are shown below:

### **1. Gross Debt and the Capital Financing Requirement**

This is a key indicator of prudence. In order to ensure that over the medium term debt will only be for a capital purpose, the local authority should ensure that debt does not, except in the short term, exceed the total of CFR in the preceding year plus the estimates of any additional CFR for the current and next two financial years. If in any of these years there is a reduction in the CFR, this reduction is ignored in estimating the cumulative increase in the CFR which is used for comparison with gross external debt. The S151 Officer reports that the Authority had no difficulty in meeting this requirement in 2020/21 to date, nor are there any difficulties envisaged for future years. This view takes into account current commitments, existing plans and the proposals in the approved budget.

There is a significant difference between the gross external borrowing requirement and the net external borrowing requirement represented by the Council's level of balances, reserves, provisions and working capital. The Council's current strategy is only to borrow to the level of its net borrowing requirement. The reasons for this are to reduce credit risk, take pressure off the Council's lending list and also to avoid the cost of carry existing in the current interest rate environment. The tables below detail our expected and actual debt position, details of movement on the CFR can be seen in the Appendix 2, Treasury Activity, table 2.

This shows that we now expect to borrow £181.11M less than forecast when the Strategy was set in February, which is mainly due to slippage in the capital programme of £151.4M for the GF and £29.7M for HRA. Further details can be seen in the General Fund and HRA capital reports being reported to Council in November.

<b>Gross Debt</b>	<b>31/03/2020 Actual £M</b>	<b>31/03/2021 Strategy £M</b>	<b>31/03/2021 Forecast £M</b>	<b>31/03/2021 Variance £M</b>
Borrowing (Long Term GF)	109.59	350.83	199.43	151.40
Borrowing (Long Term HRA)	157.28	207.67	177.97	29.70
Borrowing (Short Term)	10.36	10.36	10.36	0.00
<b>Total Borrowing</b>	<b>277.23</b>	<b>568.86</b>	<b>387.76</b>	<b>181.11</b>
Finance leases and Private Finance Initiatives	54.01	50.96	50.96	0.00
Transferred Debt	13.83	13.46	13.46	0.00
<b>Total Other Debt</b>	<b>67.84</b>	<b>64.42</b>	<b>64.42</b>	<b>0.00</b>
<b>Total Debt</b>	<b>317.77</b>	<b>382.52</b>	<b>345.07</b>	<b>(37.45)</b>

## **2. Authorised Limit and Operational Boundary for External Debt**

The Operational Boundary for External Debt is based on the Authority's estimate of most likely, i.e. prudent, but not worst case scenario for external debt. It links directly to the Authority's estimates of capital expenditure, the capital financing requirement and cash flow requirements and is a key management tool for in-year monitoring. Other long-term liabilities comprise finance lease, Private Finance Initiative and other liabilities that are not borrowing but form part of the Authority's debt.

The Authorised Limit for External Debt is the affordable borrowing limit determined in compliance with the Local Government Act 2003. It is the maximum amount of debt that the Authority can legally owe. The authorised limit provides headroom over and above the operational boundary for unusual cash movements.

The S151 Officer confirms that there were no breaches to the Authorised Limit and the Operational Boundary in the year to date; borrowing at its peak was £292M plus other deferred liabilities of £67.8M.

## **3. Upper Limits for Fixed Interest Rate Exposure and Variable Interest Rate Exposure**

These indicators allow the Council to manage the extent to which it is exposed to changes in interest rates. The upper limit for variable rate exposure allows for the use of variable rate debt to offset exposure to changes in short-term rates on our portfolio of investments.

	<b>Limits for 2020/21 (%)</b>	<b>Maximum during 2020/21 (%)</b>
Upper Limit for Fixed Rate Exposure	100	82.3
Compliance with Limits:	Yes	Yes
Upper Limit for Variable Rate Exposure	50	17.8
Compliance with Limits:	Yes	Yes

## **4. Total Principal Sums Invested for Longer Than a Year**

This indicator allows the Council to manage the risk inherent in investments longer than a year and the limit is set at £100M. The actual principal sum invested to date has peaked at £30M and is made up of the £27M in Property funds (CCLA) and Bonds of £3M. This lower than that reported previously and reflects the withdrawal from the Bonds market where the return is no longer attractive and to only borrow when cash flow dictate.

## **5. Ratio of Financing Costs to Net Revenue Stream**

This is an indicator of affordability and highlights the revenue implications of existing and proposed capital expenditure by identifying the proportion of the revenue budget required to meet borrowing costs. The ratio is based on the forecast of net revenue expenditure in the medium term financial model. The upper limit for this ratio is currently set at 15% and will remain so for the General Fund to allow for known borrowing decision in the next two years and to allow for additional borrowing affecting major schemes. The table below shows the likely position based on the proposed capital programme (including cost of long term liabilities).

This indicator is not so relevant for the HRA, especially since the introduction of self-financing, as financing costs have been built into their 30 year business plan, including

the voluntary payment of MRP. No problem is seen with the affordability but if problems were to arise then the HRA would have the option not to make principle repayments in the early years.

<b>Ratio of Financing Costs to Net Revenue Stream</b>	<b>2019/20 Actual</b>	<b>2020/21 Forecast</b>	<b>2021/22 Forecast</b>	<b>2022/23 Forecast</b>	<b>2023/24 Forecast</b>
	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>
General Fund	6.84	7.60	10.94	12.93	12.40
HRA	7.20	6.61	7.30	7.51	7.13
<b>Total</b>	<b>8.79</b>	<b>9.38</b>	<b>12.07</b>	<b>13.33</b>	<b>12.89</b>

## **6. HRA Limit on Indebtedness**

Following the Chancellor’s announcement in the 2018 Autumn Budget, restrictions relating to HRA borrowing have been lifted. This means that the previous HRA debt cap of £199.6m has been removed, and there is now the emphasis for councils to plan their new build strategy and financing at a local level incorporating affordability and prudence. As such it has been agreed that the limit will remain for existing stock and that as part of the new build strategy relevant Prudential Indicators will be agreed.

## **7. Summary**

As indicated in this report none of the Prudential Indicators have been breached.

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### GLOSSARY OF TREASURY TERMS

<p><b>Authorised Limit (Also known as the Affordable Limit):</b></p> <p>A statutory limit that sets the maximum level of external borrowing on a gross basis (i.e. not net of investments) for the Council. It is measured on a daily basis against all external borrowing items on the Balance Sheet (i.e. long and short-term borrowing, overdrawn bank balances and long term liabilities).</p>
<p><b>Balances and Reserves:</b></p> <p>Accumulated sums that are maintained either earmarked for specific future costs or commitments or generally held to meet unforeseen or emergency expenditure.</p>
<p><b>Bail - in (Risk):</b></p> <p>Following the financial crisis of 2008 when governments in various jurisdictions injected billions of dollars into banks as part of bail-out packages, it was recognised that bondholders, who largely remained untouched through this period, should share the burden in future by making them forfeit part of their investment to "bail in" a bank before taxpayers are called upon.</p> <p>A bail-in takes place before a bankruptcy and under current proposals, regulators would have the power to impose losses on bondholders while leaving untouched other creditors of similar stature, such as derivatives counterparties. A corollary to this is that bondholders will require more interest if they are to risk losing money to a bail-in.</p>
<p><b>Bank Rate:</b></p> <p>The official interest rate set by the Bank of England's Monetary Policy Committee and what is generally termed at the "base rate". This rate is also referred to as the 'repo rate'.</p>
<p><b>Bond:</b></p> <p>A certificate of debt issued by a company, government, or other institution. The bond holder receives interest at a rate stated at the time of issue of the bond. The repayment date is also set at the onset but can be traded during its life, but this will affect the price of a bond which may vary during its life.</p>
<p><b>Capital Expenditure:</b></p> <p>Expenditure on the acquisition, creation or enhancement of capital assets.</p>
<p><b>Capital Financing Requirement (CFR):</b></p> <p>The CFR is simply the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Council's underlying borrowing need.</p>
<p><b>CD's:</b></p> <p>Certificates of Deposits with banks and building societies</p>
<p><b>Capital Receipts:</b></p> <p>Money obtained on the sale of a capital asset.</p>

**Constant Net Asset Value (CNAV)**

These are Money Market Funds which maintain a stable price of £1 per share when investors redeem or purchase shares which mean that that any investment will not fluctuate in value.

**Corporate Bonds:**

Corporate bonds are bonds issued by companies. The term is often used to cover all bonds other than those issued by governments in their own currencies and includes issues by companies, supranational organisations and government agencies.

**Cost of Carry:**

The "cost of carry" is the difference between what is paid to borrow compared to the interest which could be earned. For example, if one takes out borrowing at 5% and invests the money at 1.5%, there is a cost of carry of 3.5%.

**Counterparty List:**

List of approved financial institutions with which the Council can place investments with.

**Covered Bond:**

Covered bonds are debt securities backed by cash flows from mortgages or public sector loans. They are similar in many ways to asset-backed securities created in securitisation, but covered bond assets remain on the issuer's consolidated balance sheet (usually with an appropriate capital charge). The covered bonds continue as obligations of the issuer (often a bank); in essence, the investor has recourse against the issuer and the collateral, sometimes known as "dual recourse."

**CPI :**

Consumer Price Index – the UK's main measure of inflation.

**Credit Rating:**

Formal opinion by a registered rating agency of a counterparty's future ability to meet its financial liabilities; these are opinions only and not guarantees.

**Diversify /diversified exposure:**

The spreading of investments among different types of assets or between markets in order to reduce risk.

**Federal Reserve:**

The US central bank. (Often referred to as "the Fed").

**FTSE 100 Index:**

The FTSE 100 Index is a share index of the 100 companies listed on the London Stock Exchange with the highest market capitalisation. It is one of the most widely used stock indices and is seen as a gauge of business prosperity for business regulated by UK company law. The index is maintained by the FTSE Group, a subsidiary of the London Stock Exchange Group.

**General Fund:**

This includes most of the day-to-day spending and income.

**Gilts:**

Gilts are bonds issued by the UK Government. They take their name from 'gilt-edged': being issued by the UK government, they are deemed to be very secure as the investor expects to receive the full face value of the bond to be repaid on maturity.

**Gross Domestic Product (GDP):**

Gross Domestic Product measures the value of goods and services produced within a country. GDP is the most comprehensive overall measure of economic output and provides key insight as to the driving forces of the economy.

**The G7:**

The G7, is a group consisting of the finance ministers of seven industrialised nations: namely the US, UK, France, Germany, Italy, Canada and Japan. They are seven of the eight (China excluded) wealthiest nations on Earth, not by GDP but by global net wealth. The G7 represents more than the 66% of net global wealth (\$223 trillion), according to Credit Suisse Global Wealth Report September 2012.

**IFRS:**

International Financial Reporting Standards.

**LIBID:**

The London Interbank Bid Rate (LIBID) is the rate bid by banks on Eurocurrency deposits (i.e. the rate at which a bank is willing to borrow from other banks). It is "the opposite" of the LIBOR (an offered, hence "ask" rate, the rate at which a bank will lend). Whilst the British Bankers' Association set LIBOR rates, there is no correspondent official LIBID fixing.

**LOBO:**

Stands for Lender Option Borrower Option. The underlying loan facility is typically very long-term - for example 40 to 60 years - and the interest rate is fixed. However, in the LOBO facility the lender has the option to call on the facilities at pre-determined future dates. On these call dates, the lender can propose or impose a new fixed rate for the remaining term of the facility and the borrower has the 'option' to either accept the new imposed fixed rate or repay the loan facility. The upshot of this is that on the option exercise date, the lender could propose an extreme fixed rate, say 20 per cent, which would effectively force the repayment of the underlying facility. The borrower's so called 'option' is only the inalienable right to accept or refuse a new deal such as a fixed rate of 20 per cent.

**Maturity:**

The date when an investment or borrowing is repaid.

**Maturity Structure / Profile:**

A table or graph showing the amount (or percentage) of debt or investments maturing over a time period. The amount or percent maturing could be shown on a year-by-year or quarter-by-quarter or month-by-month basis.

**Minimum Revenue Provision (MRP):**

An annual provision that the Council is statutorily required to set aside and charge to the Revenue Account for the repayment of debt associated with expenditure incurred on capital assets.

**Ministry for Housing, Communities and Local Government (MHCLG):**

The Department for Communities and Local Government (DCLG) was created on 5 May 2006, replacing the Office of the Deputy Prime Minister (ODPM), with a remit to promote community cohesion and equality, as well as responsibility for housing, urban regeneration, planning and local government.

On 8 January 2018, the government announced that the Department for Communities and Local Government will be renamed as the Ministry for Housing, Communities and Local Government (MHCLG).

**Money Market Funds (MMF):**

An open-end mutual fund which invests only in money markets. These funds invest in short term debt obligations such as short-dated government debt, certificates of deposit and commercial paper. The main goal is the preservation of principal, accompanied by modest dividends. The fund's net asset value remains constant (eg £1 per unit) but the interest rate does fluctuate. These are liquid investments, and therefore, are often used by financial institutions to store money that is not currently invested. Risk is extremely low due to the high rating of the MMFs; many have achieved AAA credit status from the rating agencies:

- **Constant net asset value (CNAV)** refers to funds which use amortised cost accounting to value all of their assets. They aim to maintain a net asset value (NAV), or value of a share of the fund, at €1/£1/\$1 and calculate their price to two decimal places known as "penny rounding". Most CNAV funds distribute income to investors on a regular basis (distributing share classes), though some may choose to accumulate the income, or add it on to the NAV (accumulating share classes). The NAV of accumulating CNAV funds will vary by the income received.
- **Variable net asset value (VNAV)** refers to funds which use mark-to-market accounting to value some of their assets. The NAV of these funds will vary by a slight amount, due to the changing value of the assets and, in the case of an accumulating fund, by the amount of income received.

This means that a fund with an unchanging NAV is, by definition, CNAV, but a fund with a NAV that varies may be accumulating CNAV or distributing or accumulating VNAV.

**Non Specified Investment:**

Investments which fall outside the CLG Guidance for **Specified investments** (below).

**Operational Boundary:**

This linked directly to the Council's estimates of the CFR and estimates of other day to day cash flow requirements. This indicator is based on the same estimates as the Authorised Limit reflecting the most likely prudent but not worst case scenario but without the additional headroom included within the Authorised Limit.

**Premiums and Discounts:**

In the context of local authority borrowing,

- (a) the premium is the penalty arising when a loan is redeemed prior to its maturity date and
- (b) the discount is the gain arising when a loan is redeemed prior to its maturity date.

If on a £1 million loan, it is calculated that a £150,000 premium is payable on premature redemption, then the amount paid by the borrower to redeem the loan is £1,150,000 plus accrued interest. If on a £1 million loan, it is calculated\* that a £50,000 discount receivable on premature redemption, then the amount paid by the borrower to redeem the loan is



£950,000 plus accrued interest. PWLB premium/discount rates are calculated according to the length of time to maturity, current market rates (plus a margin), and the existing loan rate which then produces a premium/discount dependent on whether the discount rate is lower/higher than the coupon rate.

*\*The calculation of the total amount payable to redeem a loan borrowed from the Public Works Loans Board (PWLB) is the present value of the remaining payments of principal and interest due in respect of the loan being repaid prematurely, calculated on normal actuarial principles. More details are contained in the PWLB's lending arrangements circular.*

**Property:**

Investment property is property (land or a building or part of a building or both) held (by the owner or by the lessee under a finance lease) to earn rentals or for capital appreciation or both.

**Prudential Code:**

Developed by CIPFA and introduced on 01/4/2004 as a professional code of practice to support local authority capital investment planning within a clear, affordable, prudent and sustainable framework and in accordance with good professional practice.

**Prudential Indicators:**

Indicators determined by the local authority to define its capital expenditure and asset management framework. They are designed to support and record local decision making in a manner that is publicly accountable; they are not intended to be comparative performance indicators

**Public Works Loans Board (PWLB):**

This is a statutory body operating within the United Kingdom Debt Management Office, an Executive Agency of HM Treasury. The PWLB's function is to lend money from the National Loans Fund to local authorities and other prescribed bodies, and to collect the repayments.

**Quantitative Easing (QE):**

In relation to the UK, it is the process used by the Bank of England to directly increase the quantity of money in the economy. It *“does not involve printing more banknotes. Instead, the Bank buys assets from private sector institutions – that could be insurance companies, pension funds, banks or non-financial firms – and credits the seller’s bank account. So the seller has more money in their bank account, while their bank holds a corresponding claim against the Bank of England (known as reserves). The end result is more money out in the wider economy”*. Source: Bank of England.

**Regularity Method - MRP:**

As detailed under MRP, this is a charge to revenue to repay capital expenditure financed by borrowing. There are a number of options for a prudent provision and this is for debt prior to 2008 which is supported by the Government through the RSG system. Although regulation 28 is revoked by regulation 4(1) of the 2008 Regulations, authorities are able to calculate MRP as if it were still in force.

**Revenue Expenditure:**

Expenditure to meet the continuing cost of delivery of services including salaries and wages, the purchase of materials and capital financing charges.

**RPI:**

Retail Prices Index is a monthly index demonstrating the movement in the cost of living as it tracks the prices of goods and services including mortgage interest and rent. Pensions and index-linked gilts are updated using the RPI index.

**(Short) Term Deposits:**

Deposits of cash with terms attached relating to maturity and rate of return (Interest).

**Specified Investments:**

Term used in the CLG Guidance and Welsh Assembly Guidance for Local Authority Investments. Investments that offer high security and high liquidity, in sterling and for no more than one year. UK government, local authorities and bodies that have a high credit rating.

**Supported Borrowing:**

Borrowing for which the costs are supported by the government or third party.

**Temporary Borrowing:**

Borrowing to cover peaks and troughs of cash flow, not to fund capital spending.

**Treasury Management Code:**

CIPFA's Code of Practice for Treasury Management in the Public Services, initially brought in 2003, subsequently updated in 2009 and 2011.

**Treasury Management Practices (TMP):**

Treasury Management Practices set out the manner in which the Council will seek to achieve its policies and objectives and prescribe how it will manage and control these activities.

**Unsupported Borrowing:**

Borrowing which is self-financed by the local authority. This is also sometimes referred to as Prudential Borrowing.

**Variable Net Asset Value (VNAV):**

Redemptions and investments in Money Market Funds (MMF's) are on the basis of the fund's Net Asset Value (NAV) per share. The NAV of any money market fund is the market value of the fund's assets minus its liabilities and is stated on a per share basis. The net value of the assets held by an MMF can fluctuate, and the market value of a share may not always be exactly the amount that has been invested.

**Yield:**

The measure of the return on an investment instrument.

# Agenda Item 6

<b>DECISION-MAKER:</b>	Governance Committee
<b>SUBJECT:</b>	Risk Management Report 2020
<b>DATE OF DECISION:</b>	16 <sup>th</sup> November 2020
<b>REPORT OF:</b>	Executive Director Finance and Commercialism

<b><u>CONTACT DETAILS</u></b>			
<b>Executive Director</b>	<b>Title</b>	Executive Director Finance and Commercialism	
	<b>Name:</b>	John Harrison	Tel: 023 8083 4897
	<b>E-mail</b>	john.harrison@southampton.gov.uk	
<b>Author:</b>	<b>Title</b>	Risk & Insurance Manager	
	<b>Name:</b>	Peter Rogers	Tel: 023 8083 2835
	<b>E-mail</b>	peter.rogers@southampton.gov.uk	

<b>STATEMENT OF CONFIDENTIALITY</b>	
Not applicable	
<b>BRIEF SUMMARY</b>	
The Governance Committee is responsible for ensuring that an adequate and effective framework for the identification and management of risk is in place and that appropriate action is being taken to manage risk. The Risk Management Report (Appendix 1) provides a summary of the council's risk management framework together with information on the arrangements and initiatives in place to manage risk.	
<b>RECOMMENDATIONS:</b>	
(i)	To consider and review the content of the Risk Management Report 2020 (Appendix 1).
<b>REASONS FOR REPORT RECOMMENDATIONS</b>	
1.	This report is presented to the Governance Committee as the member body responsible for providing independent assurance on the adequacy of the risk management framework and the internal control and reporting environment.
2.	In addition, the Committee needs to satisfy itself that appropriate action is being taken on risk and internal control related issues identified by the internal and external auditors and other review and inspection bodies.
<b>ALTERNATIVE OPTIONS CONSIDERED AND REJECTED</b>	
3.	No alternative options have been considered
<b>DETAIL (Including consultation carried out)</b>	
4.	The information provided in the Risk Management Report 2020 reflects the current framework and arrangements in place to manage risk and is intended to provide the Governance Committee with both information and assurance regarding how risk is managed.
<b>RESOURCE IMPLICATIONS</b>	
<b><u>Capital/Revenue</u></b>	

5.	Any resource implications as a result of actions required to mitigate the risks need to be taken into account when setting the budget each financial year. The Medium-Term Financial Strategy includes a section which sets out the sums allocated within reserves and balances to mitigate these risks where required.
<b><u>Property/Other</u></b>	
6.	None
<b>LEGAL IMPLICATIONS</b>	
<b><u>Statutory power to undertake proposals in the report:</u></b>	
7.	The Accounts and Audit (England) Regulations 2015 Part 2 Section 3A(c) require the Council to have in place a 'sound system of internal control which includes effective arrangements for the management of risk'.
<b><u>Other Legal Implications:</u></b>	
8.	None
<b>RISK MANAGEMENT IMPLICATIONS</b>	
9.	The report is intended to provide the Governance Committee with assurance regarding risk management.
<b>POLICY FRAMEWORK IMPLICATIONS</b>	
10.	None

<b>KEY DECISION?</b>	<b>No</b>
<b>WARDS/COMMUNITIES AFFECTED:</b>	Not applicable
<b><u>SUPPORTING DOCUMENTATION</u></b>	
<b>Appendices</b>	
1.	Risk Management Report 2020
<b>Documents In Members' Rooms</b>	
1.	N/A
<b>Equality Impact Assessment</b>	
<b>Do the implications/subject of the report require an Equality and Safety Impact Assessment (ESIA) to be carried out.</b>	<b>No</b>
<b>Data Protection Impact Assessment</b>	
<b>Do the implications/subject of the report require a Data Protection Impact Assessment (DPIA) to be carried out.</b>	<b>No</b>
<b>Other Background Documents</b>	
<b>Other Background documents available for inspection at:</b>	
<b>Title of Background Paper(s)</b>	<b>Relevant Paragraph of the Access to Information Procedure Rules / Schedule 12A allowing document to be Exempt/Confidential (if applicable)</b>
1.	n/a

### Risk Management Report 2020

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This report is a summary of the council's risk management framework and provides information and assurance on the key arrangements in place across the council to identify and manage risk. Risk may be defined as '*the effect of uncertainty on objectives*' recognising that risk taking is fundamental to the success of any organisation. The purpose of risk management is to support the organisation in terms of which risks should be accepted, addressed, avoided or sought.

#### ROLES AND RESPONSIBILITIES

The council's Risk and Insurance Service, which is part of the Finance and Commercialism Directorate, is responsible for:

- Facilitating the continuing development of the council's risk management arrangements including developing appropriate guidance and information;
- Supporting services in the management of operational and strategic risk;
- Facilitating and supporting the Executive Management Board ('EMB') in respect of the identification, management and review of the council's key strategic risks;
- Arranging appropriate risk financing measures and providing advice and guidance on the extent of insurance or self-insurance arrangements;
- Where appropriate, arranging the placement of cover with insurers including the negotiation of premium rates and policy terms.

The Cabinet Member for Finance and Income Generation is responsible for, and leads on, Risk Management with the Governance Committee responsible for assurance on the adequacy of the risk management framework and that appropriate action is being taken on risk.

#### RISK MANAGEMENT FRAMEWORK

The risk management framework comprises the overall arrangements in place across the council that are intended to ensure that proper consideration is taken of risk. The key components of this framework are:

- **Risk Management Policy**

This provides an overview of the operating framework, arrangements and responsibilities for managing risk and is intended to assist officers, at all levels, in applying sound risk management principles and practices across their areas of responsibility. This policy, which is published on the council intranet, is subject to annual review and update as necessary.

- **Strategic Risk Register**

The Strategic Risk Register is a key document in terms of identifying, assessing and managing the council's key strategic risks. The Strategic Risk Register is developed and managed in consultation with EMB and individual Executive Directors with the latter able to put forward new strategic risks. The Strategic Risk Register is updated and then reviewed by EMB on a quarterly basis.

- **Project and Programme Risk Management**

The need to identify and manage risk runs throughout the project and programme management process from initiation to implementation. Guidance is available to assist both project managers and project sponsors/boards in understanding the importance of managing risk.

- **Decision Taking – Corporate Report Template**

The council's standard corporate report template includes a 'Risk Management Implications' section that requires a report author to consider and provide the 'decision taker' with relevant and proportionate information regarding the risks associated with the project or initiative that is the subject of the report. The 'Risk Management Implications' paragraph is intended to support informed decision taking.

- **Partnerships**

All key service delivery partnerships (such as the Highways Service Partnership with Balfour Beatty) and major contracts have risk registers in place which are jointly reviewed with the supplier and include any 'shared risks'. There is also guidance on the intranet in respect of managing risk in respect of non-commercial partnership working.

- **Medium Term Financial Strategy**

The council's Medium Term Financial Strategy includes a financial risk register which is reviewed on a quarterly basis. The Key Financial Risks document identifies the key risks to the council's financial position over the short to medium term together with a summary of the mitigating actions in place and/or planned.

- **Business Planning**

As part of the business planning process Executive Directors and their management teams are required to consider the risks that may impact on delivery of their key priorities and outcomes and the necessary mitigations.

- **Internal Audit**

Internal audit plays a vital role in advising the council that arrangements in relation to governance, risk and internal control are in place and operating effectively. Response to internal audit activity should lead to the strengthening of the internal control environment. The annual 'Internal Audit Plan' is informed by the council's Strategic Risks together with discussions with individual Executive Directors and EMB.

- **Fraud Risk Management**

An Anti-Fraud, Bribery and Corruption Policy is published on the intranet and applies to all employees, elected members and others who work for or on behalf of the Council. Internal control systems are intended to minimise the opportunity for fraud or misappropriation of assets.

- **Operational Risk Management**

The management of 'day to day' or 'operational risk' is the responsibility of individual service areas with support and guidance being provided by Risk and Insurance Services as required including, where necessary, access to specialist advice.

## RISK MANAGEMENT ACTIONS AND INITIATIVES UNDERTAKEN

- **Insurable risk**

A new corporate insurance programme was put in place from 1<sup>st</sup> April 2020. This followed an OJEU compliant competitive tender exercise and resulted in a saving of circa £100k compared with the previous year's premium. A range of pre tender actions were undertaken in conjunction with the council's insurance broker and included an actuarial review of the council's self-insurance fund, an exercise to review all outstanding claims and claim reserve figures and a detailed critical review of the current insurance programme. The majority of the new programme is placed with a single insurer (Zurich Municipal) with the main exception being Motor which was awarded to Travelers Insurance Company

- **Covid – Risk Management**

A significant unplanned action arose in respect of Covid and the recognition, at an early stage, of the importance of capturing and assessing the new and changing risks that had arisen. This work was progressed by the Risk & Insurance Manager via the 'Silver Command' group (Heads of Service and Service Directors) which formed part of the council's emergency response arrangements together with 'Gold Command' (Executive Directors and Chief Executive). A Covid Risk Log was developed, updated and reviewed on a fortnightly basis by 'Silver' prior to being reporting to 'Gold'. This document, which was reported from March to September, provided a strategic overview of the risks and enabled an informed decision to be taken in terms of how they should be managed going forward.

A decision was taken by Gold in September that the 'Covid Risk Log' be discontinued on the basis that a number of the risks that appeared under the 'Prevent the Spread of Infection' workstream should be transferred to the Outbreak Control Plan Risk Log and managed via the Health Protection Board and reported to Gold through that route. In addition, a number of risks should be transferred to the council's Strategic Risk Register recognising that, in many cases, there was a natural fit in respect of the existing risk descriptions. There was also a recognition that certain risks should now be managed as part of the new 'business as usual' for the organisation. Risk & Insurance Service continue to provide support and advice in respect of the ongoing development of the Outbreak Control Plan Risk Log.

- **Other activity and actions arising from Covid**

Advice and guidance in respect of risk, insurance and indemnity issues was provided in respect of range of issues including the reuse of the Guildhall as a food distribution centre and subsequently as a Covid Testing Centre, the redeployment of council staff to support the delivery of critical services, the management of properties that were temporarily vacant, advising and arranging cover in respect of IT devices provided by the DfE to support disadvantaged children. It was also necessary to work with insurers and service areas in respect of ensuring the continued and safe delivery of 'statutory engineering inspections' (e.g. in respect of lifts, boilers, pressure plant etc) which is provided by insurers.

Specific communications were also issued to schools in respect of the insurance / liability position in the event that a person contracts the virus where it is alleged that this arose from the school setting

and a communication to alert schools to travel insurance helpline to enable them to discuss cancellation of school trips.

- **Strategic Risk Register**

The Strategic Risk Register was reviewed by EMB at End Q1 20-21 and End Q2 20-21 noting that the End Q4 19-20 review was deferred due to the impact of Covid and the need to focus on the development of the council's Covid Risk Log.

- **Housing – Fire Safety**

The council's housing fire safety works programme, which has seen sprinklers installed into all 19 high rise housing blocks, continues with around 2,500 new fire doors having been fitted and where necessary take action, to ensure effective 'fire stopping' between flats and corridors.

Although the main focus was on the high rise blocks there has also been an ongoing programme of both passive and active fire safety works in lower rise blocks, including installing sprinkler systems to 10 supported blocks (620 flats), replacing fire doors, replace door closers (circa 1000 completed) and improving fire stopping. It should be noted that the works were delayed due to impact of Covid however both the contractor and the council's Housing Operations Team are now back on site and working within the limitations of COVID-19 recommendations. The council has been shortlisted for a number of awards for its work in improving fire safety in its flats, noting that the member of staff in Property Services responsible for fire safety was awarded the 'Passive Fire Protection Advocate of the Year' for 2019 by the Association for Passive Fire Protection.

- **Project and Programme Risk Management**

There has been something of a positive step change in 2020 in terms risk registers/risk logs becoming more embedded as part of the normal business process, particularly in respect of project management where the use of a 'Risks, Assumptions, Issues, Dependencies ('RAID') Log is the standard approach.

- **Risk Management Policy and Guidance Document updates**

The Risk Management Policy 2017-2021 was reviewed and updated to include a number of minor changes. In addition, the guidance and associated templates in respect of Project Risk Management and Partnership Risk Management were also refreshed and updated. All documents are published on the intranet.

- **Virtual Motor Fleet Risk Management Review**

This review was carried out by the council's newly appointed motor insurers (Travelers Insurance Company) with the purpose of the exercise being to:

- Review the council's motor fleet operations
- Discuss safety and risk control arrangements
- Identify and analyse potential exposures to loss and associated control measures
- Identify and discuss any risk improvements



The review, which had to be undertaken on a virtual basis, was undertaken in conjunction with the council's Fleet Transport and Health & Safety teams. The insurers subsequent report identified three 'recommendations' and one 'requirement'. The latter referred to the council developing a system which enables greater visibility in respect of the management and operation of school minibuses. Although there was anecdotal evidence of good practice it was accepted that there was limited oversight. A questionnaire, which is expected to be issued in Q3 2020-21, is being developed in consultation with insurers for issue to those schools who operate minibuses.

- **Solent Unitaries Insurance Group**

Peer group meetings were held periodically with colleagues from Portsmouth City Council, Isle of Wight Council and Bournemouth, Christchurch and Poole Council to share and discuss risk and insurance issues. SCC has chaired and hosted these virtual meetings.

## NEW RISK MANAGEMENT ACTIVITIES PLANNED OR BEING CONSIDERED

[Note: The following may need to be reprioritised or reconsidered subject to the ongoing impact of the pandemic and the business need]

- **Contracts – Indemnity and Insurance**

In spring 2020 the Risk & Insurance Team had intended to deliver a training session for the Supplier Management Team, Integrated Contracts Unit and Legal (Contracts Team) around developing a better understanding of 'insurance and indemnity clauses in contracts'. This session had to be deferred due to the significant additional work arising out of Covid in relation to managing and supporting suppliers. The session will look to be delivered as some point in the current financial year.

- **Strategic Risk**

Arising out of the End Q2 review by EMB, it was agreed that the process in respect of how an Executive Director may escalate or propose a new risk for inclusion on the council's Strategic Risk Register, should be formally documented. This currently being developed and will be shared with EMB for approval.

- **Property Fire and Security surveys**

There are ongoing discussions with insurers in respect of how, or whether, the planned annual programme of fire and security surveys can be undertaken in light of Covid restrictions.

- **Property Reinstatement revaluation programme**

The sums insured in respect of all property that is insured via the corporate insurance programme are subject to an 'annual indexation increase'. This is intended to ensure that sums insured (or reinstatement values) are appropriate and that properties are not over or under insured. The approach in respect of the periodic review of property sums insured is to be reviewed in conjunction with Property Services in order that a consistent approach, that also reflects insurers expectations, is in place.

For further information please contact Peter Rogers, Risk & Insurance Manager 023 8083 2835 or [insurance@southampton.gov.uk](mailto:insurance@southampton.gov.uk)

# Strategic Risk Assurance Report 2020-21

Appendix 1

Period	Report Date	Version
End Q2: 20-21	Oct-20	19

## Quarterly movement

Risk No	Risk Description	Target Risk Score		Current Risk Score End Q2		2019-20		2020-21	
		Likelihood	Impact	Likelihood	Impact	Q3	Q4	Q1	Q2
SR01	Failure to address the significant and ongoing financial pressures in a sustainable way and to enable service provision to reflect key strategic outcomes and be aligned with the associated budget envelopes.	Unlikely	Major	Possible	Major	↔	↔	↔	↔
SR02	Major incident or service disruption (including serious health protection threats) leading to delivery failure that significantly impairs or prevents the Council's ability to deliver key services and/or statutory functions	Unlikely	Major	Unlikely	Major	↔	↔	↔	↔
SR03	Major IT incident or IT service disruption leading to delivery failure that significantly impairs or prevents the Council's ability to deliver key services and/or statutory functions	Possible	Major	Possible	Major	↔	↔	↔	↔
SR04	Failure to safeguard vulnerable adults resulting in a preventable incident	Possible	Critical	Possible	Critical	↔	↔	↔	↔
SR05	Failure to ensure an effective and sustainable adult social care system	Unlikely	Major	Likely	Major	↔	↔	↔	↔
SR06	Failure to safeguard children resulting in a preventable incident	Possible	Critical	Possible	Critical	↔	↔	↔	↔
SR07	Failure to ensure an effective and sustainable children's social care system	Unlikely	Major	Possible	Major	↔	↔	↔	↔
SR08	Failure to meet our health and safety responsibilities	Unlikely	Major	Possible	Major	↔	↔	↔	↔
SR09	Failure to ensure the City Council's information is held and protected in line with Information Governance policies and procedures	Unlikely	Significant	Possible	Significant	↔	↔	↔	↔
SR10	Failure to ensure delivery of statutory air quality standards	Unlikely	Significant	Unlikely	Significant	↔	↔	↔	↔
SR11	Failure by service areas to adhere to and comply on a consistent basis with the council's 'Contract Procedure Rules'	Unlikely	Significant	Possible	Significant	↔	↔	↔	↔
SR12	Failure to have in place up to date skills audits across all service areas to identify the range of skills and technical / professional expertise required to deliver services	Unlikely	Significant	Likely	Significant	NEW	↔	↔	↔
SR13	Issues with Business World functionality and interfaces have an adverse impact on the ability to provide robust and efficient financial management and processing	Unlikely	Significant	Possible	Significant	-	NEW	↔	↘
SR14	British Gas refuses to accept/recognise its contractual and, or financial obligations in respect of the required fire protection compliance work in certain high rise residential blocks.	Unlikely	Major	Possible	Major	-	-	NEW	↔
SR15	Failure to submit timely and accurate pension information in respect of both SCC and schools to the Hampshire Pension Fund	Very Unlikely	Significant	Unlikely	Significant	-	-	NEW	↘

# Agenda Item 7

<b>DECISION-MAKER:</b>	Governance Committee
<b>SUBJECT:</b>	Annual Governance Statement 2019-20
<b>DATE OF DECISION:</b>	16 November 2020
<b>REPORT OF:</b>	Chief Financial Officer

<b><u>CONTACT DETAILS</u></b>			
<b>Executive Director</b>	<b>Title</b>	Executive Director of Finance & Commercialism	
	<b>Name:</b>	John Harrison	Tel: 023 8083 4897
	<b>E-mail</b>	john.harrison@southampton.gov.uk	
<b>Author:</b>	<b>Title</b>	Risk & Insurance Manager	
	<b>Name:</b>	Peter Rogers	Tel: 023 8083 2835
	<b>E-mail</b>	peter.rogers@southampton.gov.uk	

## **STATEMENT OF CONFIDENTIALITY**

Not applicable

## **BRIEF SUMMARY**

The Accounts and Audit Regulations require that the Council develop and publish an Annual Governance Statement ('AGS'). The AGS reports on the extent to which the Council has complied with its Code of Corporate Governance, including how it has monitored and evaluated the effectiveness of its governance arrangements in the year and on any planned changes in the coming period.

In accordance with CIPFA Guidance, Audit [Governance] Committees should review and approve the final draft of the AGS prior to the document being presented to the Chief Executive and Leader of the Council for signing.

## **RECOMMENDATIONS:**

	(i)	Review and approve the draft 2019-20 Annual Governance Statement 2019-20 (Appendix 1)
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## **REASONS FOR REPORT RECOMMENDATIONS**

1.	The Governance Committee has responsibility to provide independent assurance on the adequacy of the risk management framework and the internal control and reporting environment, including (but not limited to) the reliability of the financial reporting process and the annual governance statement.
2.	This responsibility extends to receiving, reviewing and approving the draft AGS prior to the document being presented to the Chief Executive and Leader of the Council for signing.

## **ALTERNATIVE OPTIONS CONSIDERED AND REJECTED**

3.	No alternative options have been considered. The development and publication of an AGS is a requirement under the Accounts and Audit Regulations.
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## **DETAIL (Including consultation carried out)**

4.	At the meeting on 27th July 2020, the Governance Committee were invited to comment on an early draft of the AGS. This is in accordance with CIPFA guidance which recommends that “the AGS is first reviewed by members of the Audit [Governance] Committee at an early stage to allow comments and contributions to be made. The AGS, which forms part of the Statement of Accounts, must be current at the time that it is published”.
5.	The most significant change to the revised draft 2019-20 AGS (Appendix 1) is the inclusion of an updated section regarding ‘The impact of the Covid 19 Pandemic on Governance’. The Committee will recall that the draft AGS presented to the Governance Committee at the July meeting included a holding statement regarding this issue. The updated section reflects CIPFA guidance in that the AGS is amended before the point of final publication to reflect the impact on Governance from March 2020.
6.	The other updates and amendment, as highlighted, provide additional supporting information, clarification or update.
7.	Subject to any further comments, the final draft of the AGS will be presented to the Chief Executive and Leader of the Council for signing
8.	As per the process adopted in previous years, and in accordance with good practice, the Governance Committee will be provided with a mid-term update report in respect of the status of the ‘Planned Actions’.

**RESOURCE IMPLICATIONS**

**Capital/Revenue**

9. None

**Property/Other**

10. None

**LEGAL IMPLICATIONS**

**Statutory power to undertake proposals in the report:**

11. The Accounts and Audit (England) Regulations 2015 require that the Council must each financial year conduct a review of the effectiveness of the system of internal control and prepare an AGS for approval by a committee or members of the authority. The AGS must be approved in advance of the relevant authority approving the Statement of Accounts.

**Other Legal Implications:**

12. None

**RISK MANAGEMENT IMPLICATIONS**

13. Failure to develop and publish an Annual Governance Statement would mean that the Council did not comply with a statutory requirement.

**POLICY FRAMEWORK IMPLICATIONS**

14. None

<b>KEY DECISION?</b>	<b>No</b>
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<b>WARDS/COMMUNITIES AFFECTED:</b>	none
<u>SUPPORTING DOCUMENTATION</u>	
<b>Appendices</b>	
1.	Draft Annual Governance Statement 2019-20
<b>Documents In Members' Rooms</b>	
1.	n/a
<b>Equality Impact Assessment</b>	
<b>Do the implications/subject of the report require an Equality and Safety Impact Assessment (ESIA) to be carried out.</b>	<b>No</b>
<b>Data Protection Impact Assessment</b>	
<b>Do the implications/subject of the report require a Data Protection Impact Assessment (DPIA) to be carried out.</b>	<b>No</b>
<b>Other Background Documents</b>	
<b>Other Background documents available for inspection at:</b>	
<b>Title of Background Paper(s)</b>	<b>Relevant Paragraph of the Access to Information Procedure Rules / Schedule 12A allowing document to be Exempt/Confidential (if applicable)</b>
1.	n/a

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### Annual Governance Statement

#### SCOPE OF RESPONSIBILITY

Southampton City Council (“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, and facilitating the effective exercise of its functions, which includes arrangements for the management of risk.

The council has approved and adopted a Code of Corporate Governance that is consistent with the principles of the ‘Delivering Good Governance in Local Government: Framework (CIPFA/Solace, 2016). A copy of the code is on our website at:

[http://www.southampton.gov.uk/policies/code-of-corporate-governance-feb-2020\\_tcm63-396028.pdf](http://www.southampton.gov.uk/policies/code-of-corporate-governance-feb-2020_tcm63-396028.pdf)

or can be obtained from the:

Service Director – Legal and Business Operations  
Southampton City Council,  
Civic Centre,  
Southampton,  
SO14 7LY

This statement explains how the council has complied with the code and also meets the requirements of the Accounts and Audit (England) Regulations 2015, Regulation 6(1), 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, cultures and values by which the council is directed and controlled and its activities through which it accounts to, engages with and leads its communities. To demonstrate compliance with the principles of good corporate governance, the council must ensure that it does the right things, in the right way, for the right people, in a timely, inclusive, open, honest and accountable manner.

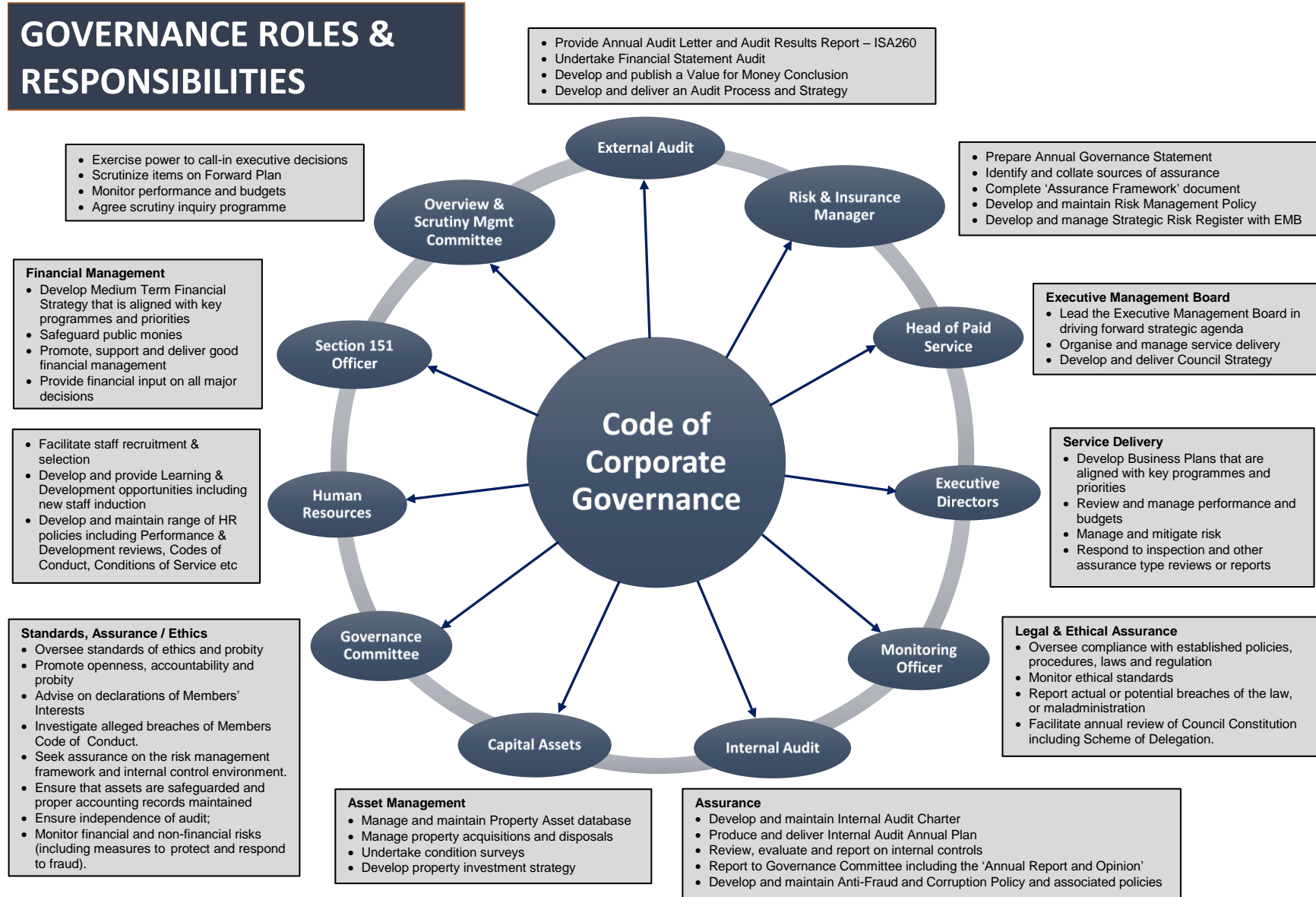
Good governance is crucial as it leads to good management, good performance, good stewardship of public money, good public engagement and ultimately good outcomes for citizens and service users. Further, good governance enables an authority to pursue its aims effectively whilst controlling and managing risk.

The system of internal control is designed to manage risk to 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 ongoing process designed to identify and prioritise the risks to the achievement of the council’s policies, aims and objectives, to evaluate the likelihood and potential impact of those risks being realised, and to manage them efficiently, effectively and economically.

The governance framework has been in place at the council for the year ended 31st March 2020 and up to the date of approval of the statement of accounts.

# Annual Governance Statement

## GOVERNANCE ROLES & RESPONSIBILITIES





# Annual Governance Statement

## The Governance Framework

The fundamental function of good governance is to ensure that the council achieves its intended outcomes while acting in the public interest at all times. The following core, high level, principles in Sections A to G reflect the 7 core principles of good governance in the public sector are derived from the 'Delivering Good Governance in Local Government: Framework (CIPFA/Solace, 2016)'.

## Impact of the Covid-19 Pandemic on Governance

This Annual Governance Statement ('AGS') assesses the governance arrangements that were in place during 2019/20 and for most of the year the governance arrangements as described in this document were in place and unaffected by Covid-19. It is however recognised that the Covid-19 pandemic did have an impact on governance during March 2020 and into 2020-21 (and potentially beyond).

The following is a summary of the council's initial response in terms of the impact on governance:

At commencement of the initial lockdown period it was identified that the usual decision-making processes may become impossible or unlawful to carry out. In order to aid delivery of council functions during the pandemic, on 18<sup>th</sup> March 2020, Council resolved to temporarily suspend all parts of the Constitution that required formal decision making by Elected Members. This action was necessary in order to ensure continuity and agility when dealing with the pandemic and, in the temporary absence of Full Council meetings, further authority was delegated to the Chief Executive, Executive Directors and the Service Director; Legal and Business Operations (and Heads of Service in their absence), to exercise all decisions that would ordinarily be decided by members. Decisions would only be valid after consultation with the Leader of the Council and/or the relevant Cabinet Member as appropriate. The foregoing included the suspension of all financial limits and the Key Decision criteria but did not include setting new strategic policy or council priorities which have a democratic mandate from the citizens of Southampton.

In May 2020 the Emergency Rules approved by Council in March 2020 were removed in light of the new law to permit virtual decision-making meetings. The report to Council included details of the Officer Delegated Decisions that had been taken under the Emergency Rules.

The elections that were due in May 2020 were postponed until May 2021 in line with government direction.

The council's Financial Procedure Rules ('FPRs') provide authorisation levels within which Officers and the Executive can act, with financial decisions deemed to have a significant impact on the Budget reserved to Council. The impact of Covid-19 was that significant external funding was provided at short notice and approval was needed to enable the deployment of the monies at a local level for both ring-fenced and discretionary pass-through of funds.

In order to avoid the necessity of special council meetings having to be called each time new external funding streams were announced (often with short notice to implement spend) it was agreed, at an Extraordinary Council meeting in June 2020, that FPR's be amended to raise the levels in respect of which Covid-19 related funding acceptance or spend required Cabinet or Council approval. It was also agreed that controls over payment schedules would be temporarily relaxed in order to facilitate the speedy distribution of funds to those in need and that the definition of a Key Decision be further amended to exclude Covid-19 related expenditure from the financial and strategic or policy impact trigger points at which a 'Key Decision' would be required.

Following the outbreak of Covid-19, the council has been closely monitoring all aspects of the financial impact of the crisis together with the longer-term implications on the council's medium-term financial strategy.

# Annual Governance Statement

In response to Covid-19 and imposition of lockdown, the council enacted its emergency planning structure in March 2020. This comprises strategic 'Gold Command', chaired by the Deputy Chief Executive and made up of the Chief Executive, Executive Directors and including the Interim Director of Public Health, together with an operational 'Silver Command' chaired by the Service Director, Business Development and made up of Heads of Service and other relevant key officers. Each group met to discuss, recommend and agree operational and service delivery matters including reviewing the both the council's 'Covid Risk Log' and the 'Stop – Start' register. The former captured the new or emerging risks across the council arising from Covid-19 together with the mitigations in place, with the latter tracking those services and activities that had to be stopped to either due to lockdown restrictions or to enable additional resources to support the delivery of critical services. The risks that were initially identified on the Covid Risk Log have since been transferred, and are now being managed, via the council's Strategic Risk Register or the Health Protection Board's Outbreak Control Plan Risk Log.

'Gold Command' initially met on a daily basis from March which reduced to three times a week during April and then to weekly in May. 'Silver Command' met on a weekly basis throughout this initial period. There were also regular meetings between the council's Executive Management Board and Cabinet to provide updates on Covid-19 related issues.

The frequency of both 'Gold' and 'Silver' Command meetings is aligned with and reflects the current status of the pandemic in terms of spread of infection and impact on council services. For a short period in September the frequency of meetings was reduced however it has since been increased to reflect the anticipated 'second wave'.

In addition, the council's Emergency Preparedness, Resilience and Response Team, the interim Director of Public Health and other relevant key officers have, and continue to, work closely with colleagues on the Hampshire & Isle of Wight Local Resilience Forum ('HIOW LRF') to ensure that the emergency response is managed in a way that is proportionate and ensures that the local system, especially in health and care, is able to cope with the pandemic. The LRF is a formal legal partnership of key statutory agencies in a given area and is working together on the response to Covid-19, as well as focusing on plans to help the residents, businesses and communities across Hampshire and the Isle of Wight to recover from the wider effects of the pandemic.

A Southampton COVID-19 Health Protection Board was also established to provide strategic system-wide leadership in preventing the spread of COVID-19 infection, and a Councillor-led Outbreak Engagement Board established to ensure robust public engagement and assurance in relation to outbreaks of COVID-19 infection.

The council also put in place 'recovery workstreams' led by nominated Executive Directors which, where appropriate, seek to reflect on the lessons learned from the council's initial response to the outbreak and ensure that these are incorporated in the 'second wave planning'.

It is recognised that the impact of the Covid-19 pandemic will be to significantly reduce the coverage of the wider assurance framework on the organisation. There will be a slightly reduced audit plan, to take account of changing circumstances, and reduced activity of external inspectorates and regulators, as well as change in focus in some cases.

Changes to the Council's governance arrangements in response to the Covid-19 crisis will be assessed and its governance arrangements optimised to take account of the new operating environment with the medium to longer term impact on governance to be reflected and reported on the 2020/21 AGS.

# Annual Governance Statement

## **A. Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law.**

The council's Constitution sets out how the council operates, how decisions are made and the procedures which are followed to ensure that these are efficient, transparent and accountable to local people. Some of these processes are required by the law, while others are a matter for the council to choose. The Constitution is divided into 15 Articles which set out the basic rules governing the council's business. The Constitution is published on the council's website at:

<http://www.southampton.gov.uk/council-democracy/meetings/council-constitution.aspx>

The Constitution includes both Officers' and Members' Codes of Conduct which set out the expected behaviour and standards to be adhered to. In addition, there is a Code of Conduct for Employees which states the standards of conduct and behaviour expected of them in the course of their employment and where this extends into activities and interests outside of work.

The Service Director: Legal and Business Operations is the Monitoring Officer and has responsibility for ensuring compliance with established policies, procedures, laws and regulation, and reporting any actual or potential breaches of the law, or maladministration, to full Council and/or to Cabinet.

A 'Whistleblowing Policy' (Duty to Act) is in place and published on the council's website. Whistleblowing is a way for employees to raise reasonably and honestly held concerns they may have about serious matters that could put the council and/or the wider public at risk. Whistleblowing usually involves bringing forward concerns that it is in the public interest to investigate and resolve. Examples are crime, fraud, the giving or taking of bribes, financial malpractice, or practices that might endanger individuals or the environment.

As part of the commitment to safeguard public funds there is an 'Anti-Fraud, Bribery and Corruption Policy'. This policy applies to any actual or suspected internal or external fraud, bribery, corruption and dishonest dealing that involve the council and or its Members and staff. It also covers contractors, suppliers, partners, agents, intermediaries and service users. The council also has in place an 'Anti-Money Laundering' policy which sets out both the expectations and responsibilities of both officers and Members in respect of preventing criminal activity through money laundering. This policy sets out the procedures which must be followed (for example reporting of suspicions of money laundering activity) to enable the council and staff to comply with their legal obligations. All such policies are subject to periodic review.

Investigations and special reviews into suspected fraud or irregularities are overseen by an 'Investigation Steering Panel', comprising the Monitoring Officer, Chief Internal Auditor, Section 151 Officer (Chief Finance Officer) and the Service Director - Human Resources & Organisational Development.

The council takes any complaints that it receives seriously and has processes to follow to make sure that every complaint is dealt with fairly and sorted out as quickly as possible. A formal Corporate Services and Adult Social Care 'Customer Comments, Compliments and Complaints Policy' is in place which is published on the council's website. This document, which sets out how customers may wish to share their experiences of using council services, is subject to annual review. In accordance with legislation there is a separate 'Children and Families Statutory Complaint Policy' in place. Complaints relating to Members are dealt with under the Members' Code of Conduct.

# Annual Governance Statement

## B. Ensuring openness and comprehensive stakeholder engagement

The council supports the principle that people should have the opportunity to voice their opinions on issues that affect them. The views of customers are at the heart of the council's service delivery arrangements and are actively sought. The council's website includes a 'Have your say' section which set out how residents and other stakeholders can 'have their say' on various issues via:

- Consultations
- E-Petitions
- Comments, compliments and complaints
- Have your say at meetings

Where appropriate, public consultation is used to seek the views of residents and stakeholders. For example the public consultation on budget proposals that helped to shape the budget report for 2020/21 and onward to 2022/23. Information was communicated in an easy to understand format with analysis on the consultation feedback considered by Cabinet before they made their final recommendations to Full Council.

The 2018 City Survey, which asked residents about their views and opinions on a range of issues facing the city, was commissioned by Southampton City Council with Southampton Connect (a multiagency partnership including representatives from the public, private and voluntary/community sectors) the Police and the NHS. This was intended to capture and help understand the views of local residents. The survey was undertaken by telephone using a mixture of random digit dial (RDD) and Mobile telephone samples of residents across the authority area and a total of 1,190 valid surveys were completed. The City Survey is used to monitor the success of key council strategies and to prioritise activity and was intended to be repeated in 2020. This was however overtaken by events, noting that three 'Residents' Survey – Coronavirus (Covid-19)' have been undertaken in 2020. These were intended to obtain an understanding of how residents are interpreting guidance, how the pandemic is impacting on their lives and the concerns that they may have during this time.

The council has in place a 'People's Panel' which now has a membership of over 2,000 people and is open to anyone over the age of 18 to join. This Panel comprises a group of residents who take part in surveys and other opportunities to express their views on council services, health services and living in the city. Run by Southampton City Council and with support from the University of Southampton, the People's Panel has been active since 2015 and the results from surveys have been used to inform a number of decisions and service changes.

In order to understand the demographic makeup of People's Panel, members are asked questions like age, gender, ethnicity and this information may be used to target engagement activities to certain groups in the city. On all wider engagement and consultation exercises, the demographic breakdown of respondents is reviewed to help ensure they are representative of Southampton residents and to identify where further targeted communications may be appropriate.

There is a strong focus on youth participation in the city with 'Youth Forum Southampton' providing opportunity for young people to influence how services are delivered, highlight issues that that need to be reviewed and to help shape public services for the community. The 'Southampton Speak Up! - Children and Young People's Participation Strategy 2016-2020' is also intended to provide children and young people with 'a voice and a choice' explains how young people can get involved to help make the city a better place. Elections have also been held for Southampton's own Member of Youth Parliament who is now in place.

The councils 'Children in Care Council' groups provides an opportunity for those children in care to share their views and experiences and making sure that their voices are heard with a view to improving things for themselves and others.

# Annual Governance Statement

## C. Defining outcomes in terms of sustainable economic, social, and environmental benefits

In February 2020 the council launched a new Southampton City Council Corporate Plan 2020-2025 ('Corporate Plan') to replace the previous Southampton City Council Strategy 2016-2020. The new Corporate Plan sets out how the council will achieve its vision of Southampton as a city of opportunity. The Corporate Plan will be delivered through achieving detailed business plans, delivering on key initiatives and working positively with partners. Underpinning this is work to support the council as a sustainable organisation, increasing commercial opportunities to generate income, and ensuring that the council is both solid in its financial position and flexible enough to identify important trends and respond to a changing environment. With the goals of creating a greener, fairer, healthier place, and in an environment of continuous change. The Corporate Plan has five key themes to address the opportunities and challenges the city faces over the next five years and beyond.



In order to achieve the council's priority outcomes employees are expected to demonstrate the council's Values. These recognise that the way we work individually and collectively is as important as the work we do, and employees are expected to demonstrate the five Council Values:

-  Customer focused
-  Collaborative
-  Curious and creative
-  Can-do
-  Commercially minded

# Annual Governance Statement

There are a number of key strategies, policies and plans which impact on direction of the council and the day to day operations as follows:



In addition, there are other key strategies that reflect the vision and ambition of both the city and wider region.

The Southampton City Strategy (2015-2025) which is a partnership strategy which sets out the vision for the whole city: *'Southampton a city of opportunity where everyone thrives'*. Southampton Connect is an overarching strategic partnership body that has senior level representation from key agencies and sectors covering private, public and voluntary sectors within the city. This independent partnership which brings together senior city representatives seeking to address the key challenges and opportunities for Southampton and working with the city's key partners to improve the outcomes of the people of Southampton.

At a sub-regional level delivery of key outcomes and priorities are achieved through the Partnership for South Hampshire ('PfSH'), the Solent Local Enterprise Partnership ('LEP') and Solent Transport.

PfSH is a collaborative partnership working arrangement between the twelve South Hampshire local authorities, Hampshire County Council plus the Southampton and Portsmouth Unitary Councils. PfSH is focused on supporting economic growth, delivery of housing, the infrastructure to achieve this development, in a sustainable manner to maintain and enhance the quality of the environment. PfSH engages with a range of other local organisations, stakeholders and Government to achieve these aims

The Solent LEP is a locally-owned partnership between businesses and local authorities and plays a central role in determining local economic priorities and undertaking activities to drive economic growth

# Annual Governance Statement

and the creation of local jobs. The Board of the Solent LEP is democratically elected by its members, who are drawn from the area's key business, education and local authorities. On a wider basis, working with Local Authority partners, has seen the creation of the Solent Leaders Forum, further strengthening joint working and collaboration across the area. In 2019 a new Solent LEP geography was created now extending further westwards to encompass the whole of the New Forest. In 2020 the Solent LEP will develop a new future facing strategy called Solent 2050.

Solent Transport is a sub-regional transport partnership composed of: Portsmouth, Southampton, the Isle of Wight and Hampshire County Council. It was created in 2007 as Transport for South Hampshire and was rebranded to Solent Transport in 2014. Solent Transport and its partner bodies are important members of Transport for the South East (TFSE). The partnership creates a platform for joint working, standards and partnership leading to innovation, excellence and parity in transport provision across the Solent Transport area. The partnership works strategically with private industry, key stakeholders and other agencies to deliver transport infrastructure, networks and systems crucial to keep the region moving and generate economic growth, wealth and sustainability.

The council's Medium Term Financial Strategy ('MTFS') is also core part of the council's strategic framework and plays a pivotal role in translating the council's strategic plans and ambitions into action. An MTFS for the period 2019/20 to 2022/23 was in place with an updated version for the period 2020/21-2022/23 approved by Full Council in February 2020. The objective of the MTFS is to provide a financial framework within which financial stability can be achieved and sustained in the medium term to deliver the council's priorities. The Strategy is based around 6 key aims:

- To provide financial parameters within which budget and service planning should take place;
- To ensure the council sets a balanced and sustainable budget;
- To focus and re-focus the allocation of resources so that, over time, priority areas receive additional resources, ensuring services are defined on the basis of a clear alignment between priority and affordability;
- To ensure the council manages and monitors its financial resources effectively so that spending commitments do not exceed resources available in each service area;
- To plan the level of fees, charges and taxation in line with levels that the council regard as being necessary, acceptable and affordable to meet the council's aims, objectives, policies and priorities whilst gradually reducing the council's reliance on Central Government funding; and
- To ensure that the council's long term financial health and viability remain sound.

The MTFS takes into account a number of other strategies, policies and plans that impact on the direction of the council and the day to day operations, enabling integrated financial planning over the medium term. The 2019/20 budget setting process incorporated business academies and began to embed commercialisation across the council.

## **D. Determining the interventions necessary to optimise the achievement of the intended outcomes**

The council has in place a robust decision making process with all reports are subject to corporate clearance (Legal, Finance and Policy) prior to publication in accordance with the published procedures (which form part of the Council Constitution). All reports follow a standard template which identifies the

'Decision Maker', the decision or action required, why the report is recommended, alternative options considered together with a details (including consultation carried out) section. The template also includes separate sections detailing any Financial (Resource), Legal, Risk Management and Policy implications. These consider the how proposals will be paid for, the statutory power to undertake the action and including reference to any legislation that affects the proposals, information on the risks that

# Annual Governance Statement

are being accepted as part of the decision and confirmation that the report proposals are in accordance with the council's approved Policy Framework.

The council's Overview and Scrutiny Management Committee ("OSMC") manages the council's overview and scrutiny process which includes scrutinising items on the council's Forward Plan and exercising the power to call-in executive decisions, agreeing the scrutiny inquiry programme and monitoring performance and budgets, Scrutiny provides the role of the "critical friend" to the decision makers and assists in policy development, drives improvement in public services and enables the voice of the public to be heard. There are a number of Scrutiny Panels that support the work of the Executive and the council as a whole. The Scrutiny Inquiry Panel carries out a work programme of scrutiny inquiries approved by the OSMC. In addition, the Health Overview and Scrutiny Panel undertakes the statutory scrutiny of health and adult social care agencies in Southampton, and the Children and Families Scrutiny Panel scrutinises services for children and families in the city, including education.

All scrutiny meetings are held in public, and at the discretion of the Chair provide an opportunity for the public to ask questions or submit questions in writing to the committee or panels. Scrutiny inquiries can consider written evidence and members of the public, community groups, or other key stakeholders can write in to bring evidence to the attention of the Inquiry Panel members.

'Financial Scorecards' produced for each service area together with a portfolio which provide relevant management information to assist in the explanation of variances and help to encourage evidence based forecasts. Significant in year budget variances are challenged by senior management with action plans and mitigations put in place.

## **E. Developing the entity's capacity, including the capability of its leadership and the individuals within it**

The council has in place a Workforce Strategy which is intended to enable the council to develop its current and future workforce with the right skills, competencies and behaviours to deliver services. The council's Workforce Strategy sets out a high level vision, priorities and outcomes to develop and nurture a motivated and effective workforce who will deliver the council's priorities. The priority outcomes delivered by the Workforce Strategy will be:

- Recognised as an employer of choice;
- A high performing workforce;
- Good management across the council;
- Evidenced based decision making, planning and delivery;
- A highly motivated and engage workforce;
- Staff empowered to make decisions;
- An effective Member Development programme for councillors; and
- Demonstrable valuing of diversity and equality.

The Workforce Strategy is a key document that sits alongside the both the Medium-Term Financial Strategy and the Customer Strategy and takes account of challenges in relation to the overall council budget. It is used to inform resource allocation decisions, drive positive change and delivery agreed outcomes.



# Annual Governance Statement

The council also has in place a Workplace equalities policy which reflects the council's long-standing commitment towards the elimination of discrimination and the achievement of equality of outcomes for residents, communities and staff as reflected in our published priorities and organisational values. The policy reaffirms the council's commitment to eliminate discrimination in all that we do and help achieve equality of opportunity and outcomes for our staff and the communities it serves.

## **F. Managing risk and performance through robust internal control and strong public financial management**

The council has in place a 'Risk Management Policy' that sets out the framework, arrangements and responsibilities in respect of how risks relating to the delivery of key outcomes and priorities, are identified and managed. This policy is intended to support the application of robust risk management principles and practices across all service areas.

A key document is the council's Strategic Risk Register which reflects the key strategic keys that have been identified as needing to be managed in order to support the delivery of key initiatives and priorities. The Strategic Risk Register is developed in consultation with Executive Directors who are also provided with information on 'Core Cities' strategic risks in order to sense check against the council's strategic risks. The Strategic Risk Register, which is updated and reviewed by the Executive Management Team on a quarterly basis, identifies how the individual risks are being managed together with an assessment of the effectiveness of the arrangements in place. An exceptions report identifies any gaps or weaknesses with a requirement that further mitigating actions be developed and actioned as necessary.

The council's Governance Committee has responsibility to provide independent assurance on the adequacy of the risk management framework and the internal control and reporting environment and the integrity of the financial reporting and annual governance statement process. The Governance Committee undertakes the core functions of an audit committee and operates in accordance with CIPFA guidance. It receives a range of periodic reports relating to both the internal control environment and financial management including receiving the draft Statement of Accounts. The Committee receives an annual Risk Management Report that summarises the framework and arrangements in place to manage risk and is intended to provide the Committee with both information and assurance regarding how risk is managed.

The council has in place 'Business Plans' at service level that are aligned with the council's priorities as set out in the Corporate Plan. These plans identify the key challenges and opportunities associated with the delivery of the respective priority projects and how they can be addressed. Heads of Service receive monthly financial performance and absence data and are expected to review performance levels.

All significant commercial partnership working arrangements also have a range of performance indicators which are used to verify and manage service performance. The council is committed to achieving best value from its contracts and ensuring that goods, services and works are procured and contract managed in the most efficient and effective way. Regular review meetings are held with key suppliers in order to ensure that contracts remain fit for purpose. In addition, these outsourced contracts are managed by a Supplier Management Team or the Integrated Commissioning Unit which provide senior management interfaces between the council and our partnership service providers.

The council's financial management arrangements conform to the governance requirements of the CIPFA 'Statement on the Role of the Chief Financial Officer ("CFO") in Local Government (2016)'. The CFO (the Executive Director Finance and Commercialism) is professionally qualified and is a member of the Executive Management Team and reports directly to the Chief Executive. The CFO is actively involved in ensuring that strategic objectives are aligned to the longer-term finance strategy. The CFO has input into all major decisions, advises the Executive on financial matters and is responsible for ensuring that budgets are agreed in advance, that the agreed budget is robust and that the finance function is fit for purpose.

# Annual Governance Statement

## **G. Implementing good practices in transparency, reporting, and audit, to deliver effective accountability**

The council is committed to openness and transparency and publishing as much council data as it can in order to increase accountability. The 'Council Data' page on the council's website allows the public to access a wide range of information and data that is published in accordance with the Local Government Transparency Code (2015). This includes a link to both the current and previous Statement of Accounts together with relevant audit certificates. These documents shows how public money has been used.

The council's Constitution sets out how decisions are made and makes specific reference to decision making by Full Council, by the Executive (Cabinet), by Overview and Scrutiny Committees, other committees and sub-committees established by the council and by council bodies acting as tribunals. The Constitution also includes an Officer Scheme of Delegation which sets out the powers and functions that are delegated to named Council Officers. The compilation of a Register of Delegated Powers is a statutory requirement and is maintained by the Service Director: Legal & Business Operations.

The council produces a Forward Plan of all Key Decisions which are proposed to be taken within the next four months (updated monthly 28 clear days prior to scheduled Cabinet meetings on a rolling basis). Other decisions are also included where practicable to assist in providing public transparency and confidence in decision making. All agendas and minutes of meetings in respect of Council, Cabinet, Overview and Scrutiny, Non-Executive Committees and statutory boards and published on the council's website.

The council's assurance arrangements conform to the governance requirements of the CIPFA 'Statement on the Role of the Head of Internal Audit in public service organisations (2010)' noting that an updated version of the document was published by CIPFA in April 2019. This updated statement mirrors the Public Sector Internal Audit Standards and is embedded in the Internal Audit Charter & Code of Ethics. The Head of Internal Audit (Chief Internal Auditor) is professionally qualified and is responsible for reviewing and reporting on the adequacy of the council's internal control environment, including the arrangements for achieving value for money. The Chief Internal Auditor has direct access to the Chief Executive, and to the council's Monitoring Officer where matters arise relating to Chief Executive responsibility, legality and standards. Where it is considered necessary to the proper discharge of internal audit function, the Chief Internal Auditor has direct access to elected Members of the Council and in particular those who serve on committees charged with governance (i.e. the Governance Committee).

## **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 led by a 'Controls Assurance Management Group' comprising the Executive Director - Finance & Commercialism (Section 151 Officer), Chair of the Governance Committee, Executive Director Business Services, Service Director – Legal & Business Operations (Monitoring Officer) and the Chief Internal Auditor.

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

- The views of Internal Audit regularly reported to Governance Committee via the 'Internal Audit: Progress Report' which includes executive summaries of new reports published and highlights any significant risk exposure and control issues, including fraud and governance. Audits rated 'No Assurance' are specifically highlighted to the Governance Committee along with any Director's comments. The Committee is able to request any director attends a meeting to discuss the issues.

# Annual Governance Statement

- The views of external auditors, regularly reported to the Governance Committee, including regular progress reports, the Annual Audit Letter and Audit Results Report.
- The Chief Internal Auditors 'Annual Report and Opinion' on the adequacy and effectiveness of the council's internal control environment : The Chief Internal Auditor's opinion for 2019-20 was that a 'limited assurance' opinion was given on the effectiveness of the arrangements relating to the framework of governance, risk management and control at Southampton City Council.

The results of the work carried out in 2019-20 show that, although the level of 'limited' and 'no assurance' reviews have decreased slightly from the previous year (which would indicate that improvements are continuing), an area that still requires work is in relation to movement on the implementation of agreed actions to resolve risk exposure. This is reflected in 'Significant Governance Issue' Item 4.

- The Internal Audit Charter and delivery of the annual Internal Audit plan;
- The work of the Chief Executive, Executive Directors and Service Directors who have responsibility for the development and maintenance of the control and governance environment;
- The completion of 'Self-Assessment Statements' that cover the key processes and systems that comprise the council's governance arrangements and are intended to identify any areas where improvement or further development is required. In previous years, these self-assessments have been completed by the respective Service Directors however, for this year, the process involved a combination of Heads of Service and Service/Executive Directors. This approach was necessary as the implementation of the Resources Review, which comprised a reorganisation of council's top management posts, created some challenges as the AGS is a backward look at the governance arrangements in place in 2019-20.
- Completion of an 'Assurance Framework' document which reflects the key components of the council's overall governance and internal control environment. This document, based on CIPFA/SOLACE guidance, records the key controls in place, and sources of assurance, and identifies any significant gaps or weaknesses in key controls;
- The independent views of regulatory inspection agencies such as Ofsted and the Care Quality Commission;
- The annual report on Risk Management and including the Risk Management Policy and Strategic Risk Register;
- The work of the Governance Committee in relation to the discharge of its responsibility to lead on all aspects of corporate governance.

We have been advised on the implications of the result of the review of the effectiveness of the governance framework by the Governance Committee, and that the arrangements continue to be regarded as fit for purpose in accordance with the governance framework. The areas already addressed and those to be specifically addressed with new actions planned are outlined below.

## SIGNIFICANT GOVERNANCE ISSUES

The following significant governance issues have been identified:

### 1. Governance Issue

An important part of both the 2020-25 corporate business planning process and the council's Workforce Strategy is the requirement for service areas to identify and consider future organisational development requirements and including the resilience of the service and, in particular, succession planning. This is however an area where further actions are required within service areas in terms of having in place formal/ informal succession plans noting that the 2019 Resources Review, which saw

# Annual Governance Statement

the reorganisation of council's senior management, resulted in some areas of experience exiting the organisation and gaps opening in skills levels or resilience.

**Planned Action (including update):** Work during coronavirus lockdown has looked at skills survey for staff against critical services and Business Plans have been updated to reflect this. It was intended that lessons learned from the initial lockdown period would be pulled together through EMB to help understand key skills issues and identify any gaps. This work has however been superseded by work that is focused on redeployment planning for a 2nd wave of the pandemic, which has focused on skills and requirements in this context.

**Responsible Officer:** Service Director Human Resources & Organisational Development

**Target Date for completion:** End Q3 2020-21

## 2. Governance Issue

A resourcing review of the council's top 50 management posts was undertaken in 2019. This 'Resources Review' was designed to ensure that the organisational structure was aligned with the five key strategic themes, agreed with Council in July 2019, to address the opportunities and challenges the city faces over the next five years and beyond. Associated with this process was the creation of a new reporting hierarchy comprising the 'Executive Management Team (Executive Directors and Chief Executive), Senior Leadership Team (Service Directors and Heads of Service), Leadership Team (including service managers).

During this process it was necessary for interim postholders to be in place and/or appointed to certain senior management posts whilst the appointment and recruitment process was undertaken and completed.

**Completed Action:** All Senior posts were recruited to by the end of 2019 with all new postholders and organisational structures in place 1<sup>st</sup> April 2020

## 3. Governance Issue

Lack of consistent adherence and compliance by officers to policies such as Employee Gifts & Hospitality and Registration of Outside Interest, and Travel and Subsistence. The self-assessment return indicates that there are still pockets across the Authority that are unfamiliar with the required arrangements and declarations that should be completed. This position was also supported with the results of the follow-up Internal Audit review for, Ethics, where agreed actions had been delayed. The actions outstanding are regarding staff awareness/ registration and the need to update the policy.

**Planned Action (including update):** Policies were communicated and we are looking at new forms library as the old platform is decommissioned. An HR policy group has been established, and has completed 6 reviews, 5 policies currently under review. This work is ongoing.

A second 'follow up' Internal Audit report issued in September 2020, which focussed on awareness of and compliance with the Registration of Outside Interest Policy and the Gifts and Hospitality Policy, showed an improved position with an overall assurance level of 'Reasonable'.

**Responsible Officer:** Executive Director Business Services

**Target date for completion:** End Q3 2020-21

## 4. Governance Issue

An agreed process has been developed whereby Internal Audit provides a periodic report to the council's Executive Management Team in respect of 'follow up' reviews on any 'limited' or 'no assurance' audit reports. This is in terms of seeking to prompt or ensure, on a consistent basis, that

## Annual Governance Statement

the agreed management actions have been implemented or otherwise satisfactorily progressed. This is reflected in the Chief Internal Auditors Annual Report and Opinion

Full implementation of this process, which commenced in February 2020, has however been adversely impacted by Covid 19.

**Planned Action (including update):** Revised reporting arrangement to be developed and built into the revamped performance reporting framework for the Executive Management Team.

The Corporate reporting dashboard was introduced in July and is scheduled on a quarterly basis going forwards. This, and all key governance reporting (Information Governance, Internal Audit & Risk), will be reported at the same quarterly meetings from January 2021.

**Responsible Officer:** Executive Director Business Services

**Target date for completion:** ~~End Q1 2020/21~~ End Q3 2020/21

### 5. Governance Issue

In order to manage the council's performance effectively the council's revised Senior Management Team needs to review monitoring reports regularly. Plans to conclude a new regular comprehensive monitoring report, and the planned regular reviews of performance at a corporate level, have been disrupted by the Resource Review, which introduced a new senior management structure and team, and the response to the COVID pandemic.

**Planned Action (including update):** Both the Council Plan and performance outcomes have been revised for the Corporate Business Plan 2020 – 2025 (approved in February 2020) and a comprehensive monitoring approach, including finance, workforce, audit, health and safety and performance matters is in development

The Corporate reporting dashboard was introduced in July and is scheduled on a quarterly basis going forwards. Performance, together with all key governance reporting, will be reported at the same quarterly meetings from January 2021.

**Responsible Officer:** Executive Director Business Services

**Target date for completion:** ~~End Q1 2020/21~~ End Q3 2020/21

### 6. Governance Issue (carried forward from 2018-19)

Whilst a number of actions have been implemented in order to improve officer compliance with the council's procurement policies it was considered to be too soon to for assurance to be provided that they have been fully effective in terms of modifying behaviours. The intention was that, as part of the 2019/20 Internal Audit Annual Plan, an audit review would look to obtain evidence and assurance of modified officer behaviours in respect of compliance with procurement policies.

**Completed Action:** The Internal Audit review of contract framework and procurement, originally scheduled for March 2020 but had to be deferred to 2020/21 due to the impact of Covid-19, was completed in Q2 20-21 as planned. The audit report is currently in draft and will need client feedback before a final version is issued.

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

# Annual Governance Statement

**Signed**

.....  
**Sandy Hopkins**  
Chief Executive

.....  
**Councillor Christopher Hammond**  
Leader of the Council

on behalf of Southampton City Council

DRAFT

# Agenda Item 8

<b>DECISION-MAKER:</b>	<b>GOVERNANCE COMMITTEE</b>		
<b>SUBJECT:</b>	<b>STATEMENT OF ACCOUNTS 2019/20</b>		
<b>DATE OF DECISION:</b>	<b>16 NOVEMBER 2020</b>		
<b>REPORT OF:</b>	<b>EXECUTIVE DIRECTOR FINANCE &amp; COMMERCIALISATION (SECTION 151 OFFICER)</b>		
<b><u>CONTACT DETAILS</u></b>			
<b>AUTHOR:</b>	<b>Name:</b>	<b>Stephanie Skivington</b>	<b>Tel:</b> <b>023 80832692</b>
	<b>E-mail:</b>	<a href="mailto:Stephanie.Skivington@southampton.gov.uk">Stephanie.Skivington@southampton.gov.uk</a>	
<b>Director</b>	<b>Name:</b>	<b>John Harrison</b>	<b>Tel:</b> <b>023 80834897</b>
	<b>E-mail:</b>	<a href="mailto:John.Harrison@southampton.gov.uk">John.Harrison@southampton.gov.uk</a>	

<b>STATEMENT OF CONFIDENTIALITY</b>	
NOT APPLICABLE	
<b>BRIEF SUMMARY</b>	
<p>In accordance with the Accounts and Audit Regulations 2015 (as amended by the Accounts and Audit (Coronavirus)(Amendment) Regulations 2020) the Draft Statement of Accounts 2019/20 were signed by the Executive Director Finance &amp; Commercialisation (Section 151 Officer) on 1 July 2020 ahead of the 31 August 2020 deadline. The amended regulations require the audited accounts to be published by 30 November 2020. A copy of the updated Statement of Accounts is available in the Members' Room.</p>	
<p>The year-end audit, carried out by our auditors Ernst &amp; Young LLP, commenced on 29 June 2020 and had not been concluded at the time of writing this report. This report details the changes made to the Statement of Accounts arising from the findings of the audit to date.</p>	
<b>RECOMMENDATIONS:</b>	
(i)	Note the changes to the Statement of Accounts 2019/20 as a result of the annual audit as detailed in paragraphs 5 to 7 and appendix 1.
(ii)	Consider and approve the audited Statement of Accounts 2019/20.
(iii)	Approve the rationale for not correcting the audit difference relating to the net pension liability as set out in paragraph 8.
(iv)	Agree that the Executive Director Finance & Commercialisation (S151 Officer), in consultation with the Chair of the Committee, can make any further changes to the Statement of Accounts 2019/20 that may arise during completion of the audit.
<b>REASONS FOR REPORT RECOMMENDATIONS</b>	
1.	It is a legal requirement that the Statement of Accounts 2019/20 is considered and approved by this committee, following the completion of the audit, and signed by the person presiding at this meeting. The Statement of Accounts must be published by 30 November 2020 or as soon as reasonably practicable after the receipt of the auditor's final findings.

<b>ALTERNATIVE OPTIONS CONSIDERED AND REJECTED</b>	
2.	The Statement of Accounts have been prepared in accordance with statutory requirements. No other options have been considered as it is a legal requirement that the Statement of Accounts are prepared, and signed by the person presiding at this meeting following completion of the audit.
<b>DETAIL (Including consultation carried out)</b>	
	<b>CONSULTATION</b>
3.	Not applicable.
	<b>STATEMENT OF ACCOUNTS</b>
4.	The Statement of Accounts are a complex document and the layout and information provided are defined by statutory requirements. The key issues that should be drawn to the attention of Committee were presented at its meeting on 27 July 2020. A copy of this is available in the Members' Room or by following the link below. <a href="#">Draft Statement of Accounts 2019/20</a>
	<b>STATEMENT OF ACCOUNTS AMENDMENTS</b>
5.	There are a number of adjustments to the Statement of Accounts arising from the findings of the audit, none of which change the overall bottom line position for the Council for 2019/20.
6.	The updated Statement of Accounts are available in the Members' Room. The main adjustments to the statements are outlined below, with further details in Appendix 1: <ul style="list-style-type: none"> <li>• Amendment to Note 12 Property, Plant &amp; Equipment (PPE) to reverse the prior year adjustment for the writing out of cumulative depreciation and impairment on revaluation (equal and opposite entries with no impact on the net book value);</li> <li>• Amendment of the fair value hierarchy classification of the Pooled Property Fund in Note 17 Financial Instruments following suspension of trading on 16 March 2020;</li> <li>• Correction of short-term/long-term split of Non Domestic Rates (NDR) appeals provision in the Balance Sheet and Note 21 Provisions.</li> </ul>
7.	The full details of adjustments to the statements and notes are detailed in Appendix 1.
	<b>UNADJUSTED AUDIT DIFFERENCES</b>
8.	The Council's net pension liability as at 31 March 2020 reported in the draft accounts was £492.1M. The auditors have identified that this is overstated by £4.4M (0.9%) due to a change in the assumptions used by the actuary of Hampshire Pension Fund to determine their estimate of the Council's defined benefit pension liability. We have not corrected the accounts for this audit difference because: <ul style="list-style-type: none"> <li>• It is below the materiality level;</li> <li>• The uncorrected amount would not have a material impact on the use and interpretation by users of the statement of accounts.</li> </ul>
<b>RESOURCE IMPLICATIONS</b>	
<b><u>Capital/Revenue</u></b>	



9.	The capital and revenue implications were considered as part of the Revenue and Capital Outturn 2019/20 report that was presented to Cabinet on 14 July 2020.
<b><u>Property/Other</u></b>	
10.	Amendments have been made to prior year comparators for Property, Plant and Equipment. This has no effect on the resources available to the Council.
<b>LEGAL IMPLICATIONS</b>	
<b><u>Statutory power to undertake proposals in the report:</u></b>	
11.	Accounts and Audit Regulations 2015 and the Accounts and Audit (Coronavirus) (Amendment) Regulations 2020.
<b><u>Other Legal Implications:</u></b>	
12.	None.
<b>RISK MANAGEMENT IMPLICATIONS</b>	
13.	Not applicable
<b>POLICY FRAMEWORK IMPLICATIONS</b>	
14.	Not applicable. It should be note that the Financial Statements have been prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting in the UK 2019/20.

<b>KEY DECISION?</b>	<b>Yes/No</b>
<b>WARDS/COMMUNITIES AFFECTED:</b>	
<b><u>SUPPORTING DOCUMENTATION</u></b>	
<b>Appendices</b>	
1.	Schedule of changes to Draft 2019/20 Accounts
<b>Documents In Members' Rooms</b>	
1.	Updated Statement of Accounts 2019/20
2.	Governance Committee Report 27 July 2020 – Draft Statement of Accounts 2019/20.

<b>Equality Impact Assessment</b>		
Do the implications/subject of the report require an Equality and Safety Impact Assessment (ESIA) to be carried out.		Yes/No
<b>Privacy Impact Assessment</b>		
Do the implications/subject of the report require a Privacy Impact Assessment (PIA) to be carried out.		Yes/No
<b>Other Background Documents</b>		
<b>Other Background documents available for inspection at:</b>		
Title of Background Paper(s)	Relevant Paragraph of the Access to Information Procedure Rules / Schedule 12A allowing document to be Exempt/Confidential (if applicable)	
1.	n/a	

Revisions made to Statement of Accounts

Ref No	Description	Page	Statement/ Note	Detail																																																																																																																				
1	Reversal of Prior Period Adjustment for Property, Plant and Equipment	50	5	Note on restatement of prior year comparatives for Note 12 Property, Plant & Equipment removed.																																																																																																																				
		63	12	<p>Prior period adjustment removed and 2018/19 figures restated back to those in the published 2018/19 accounts. 2019/20 revaluation and depreciation figures updated for Other Land &amp; Buildings to reflect write back of depreciation for property valuations subject to indexation. There has been no change to the Net Book Value of Other Land &amp; Buildings at £519.61M as at 31st March 2020.</p> <table border="1"> <thead> <tr> <th colspan="2">2019/20</th> <th colspan="2">2018/19</th> </tr> <tr> <th colspan="2"></th> <th style="text-align: center;"><i>Revised</i></th> <th style="text-align: center;"><i>Revised</i></th> </tr> <tr> <th>Other Land &amp; Buildings</th> <th>Other Land &amp; Buildings</th> <th>Other Land &amp; Buildings</th> <th>Other Land &amp; Buildings</th> </tr> <tr> <th>£000</th> <th>£000</th> <th>£000</th> <th>£000</th> </tr> </thead> <tbody> <tr> <td colspan="4"><b>Cost or Valuation</b></td> </tr> <tr> <td>At 1 April 2019</td> <td>553,689</td> <td>At 1 April 2019</td> <td>525,995</td> </tr> <tr> <td>Adjustment to Previous Year Charges</td> <td>0</td> <td>Adjustment to Previous Year Charges</td> <td>0</td> </tr> <tr> <td>At 1 April 2019</td> <td>553,689</td> <td>At 1 April 2019</td> <td>525,995</td> </tr> <tr> <td>Additions</td> <td>9,942</td> 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Between 2 and 5 years	(18,000)	7																																																																																																																						
Between 5 and 10 years	(30,000)	11																																																																																																																						
Between 10 and 15 years	(37,000)	14																																																																																																																						
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Between 35 and 40 years	(47,900)	17																																																																																																																						
Between 40 and 45 years	(14,247)	5																																																																																																																						
Uncertain Date**	(9,000)	3																																																																																																																						
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4	Correction of short-term/long-term split of NDR appeals provision	29	Balance Sheet	<p><b>Balance Sheet - Extract of liabilities</b></p> <p style="text-align: right;"><i>Revised</i></p> <table border="1"> <thead> <tr> <th></th> <th>Notes</th> <th>31 March 2020 £000</th> <th>Notes</th> <th>31 March 2020 £000</th> </tr> </thead> <tbody> <tr> <td>Cash &amp; Cash Equivalents</td> <td>19</td> <td>(4,352)</td> <td>19</td> <td>(4,352)</td> </tr> <tr> <td>Deferred Liabilities</td> <td>38</td> <td>(364)</td> <td>38</td> <td>(364)</td> </tr> <tr> <td>Short Term Borrowing</td> <td>17b</td> <td>(55,214)</td> <td>17b</td> <td>(55,214)</td> </tr> <tr> <td>Short Term Creditors</td> <td>20</td> <td>(72,857)</td> <td>20</td> <td>(72,857)</td> </tr> <tr> <td>Provisions</td> <td>21</td> <td>(5,466)</td> <td>21</td> <td>(8,773)</td> </tr> <tr> <td><b>Current Liabilities</b></td> <td></td> <td><b>(138,253)</b></td> <td></td> <td><b>(141,560)</b></td> </tr> <tr> <td>Long Term Creditors</td> <td>17b</td> <td>(51,002)</td> <td>17b</td> <td>(51,002)</td> </tr> <tr> <td>Provisions</td> <td>21</td> <td>(9,823)</td> <td>21</td> <td>(6,516)</td> </tr> <tr> <td>Long Term Borrowing</td> <td>17b</td> <td>(222,597)</td> <td>17b</td> <td>(222,597)</td> </tr> <tr> <td>Other Long Term Liabilities</td> <td></td> <td></td> <td></td> <td></td> </tr> <tr> <td>- Deferred Liabilities</td> <td>38</td> <td>(13,462)</td> <td>38</td> <td>(13,462)</td> </tr> <tr> <td>- Cap. Grants &amp; Conts Receipts in Advance</td> <td>37a</td> <td>(12,418)</td> <td>37a</td> <td>(12,418)</td> </tr> <tr> <td>- Pension Fund Liability</td> <td>34c</td> <td>(492,146)</td> <td>34c</td> <td>(492,146)</td> </tr> <tr> <td><b>Long Term Liabilities</b></td> <td></td> <td><b>(801,448)</b></td> <td></td> <td><b>(798,141)</b></td> </tr> </tbody> </table>		Notes	31 March 2020 £000	Notes	31 March 2020 £000	Cash & Cash Equivalents	19	(4,352)	19	(4,352)	Deferred Liabilities	38	(364)	38	(364)	Short Term Borrowing	17b	(55,214)	17b	(55,214)	Short Term Creditors	20	(72,857)	20	(72,857)	Provisions	21	(5,466)	21	(8,773)	<b>Current Liabilities</b>		<b>(138,253)</b>		<b>(141,560)</b>	Long Term Creditors	17b	(51,002)	17b	(51,002)	Provisions	21	(9,823)	21	(6,516)	Long Term Borrowing	17b	(222,597)	17b	(222,597)	Other Long Term Liabilities					- Deferred Liabilities	38	(13,462)	38	(13,462)	- Cap. Grants & Conts Receipts in Advance	37a	(12,418)	37a	(12,418)	- Pension Fund Liability	34c	(492,146)	34c	(492,146)	<b>Long Term Liabilities</b>		<b>(801,448)</b>		<b>(798,141)</b>																																																															
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Shares in unlisted companies	45	20																																																																								
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<b>Total Investments</b>	<b>30,511</b>	<b>29,502</b>	<b>40,211</b>	<b>31,653</b>	<b>31,653</b>																																																																					
7	Update to amounts due for leases and additional disclosure of contingent rents	94	31	<p><b>Leases</b></p> <table border="1"> <thead> <tr> <th></th> <th><u>31 March</u> <u>2019</u> <u>£000</u></th> <th><u>31 March</u> <u>2020</u> <u>£000</u></th> </tr> </thead> <tbody> <tr> <td>Not later than one year</td> <td>7,407</td> <td>6,509</td> </tr> <tr> <td>Later than one year and not later than five years</td> <td>20,850</td> <td>20,182</td> </tr> <tr> <td>Later than five years</td> <td>523,492</td> <td>527,734</td> </tr> <tr> <td></td> <td><u>551,749</u></td> <td><u>554,425</u></td> </tr> </tbody> </table> <table border="1"> <thead> <tr> <th></th> <th><u>31 March</u> <u>2019</u> <u>£000</u></th> <th><u>31 March</u> <u>2020</u> <u>£000</u></th> </tr> </thead> <tbody> <tr> <td>Not later than one year</td> <td>7,407</td> <td>6,620</td> </tr> <tr> <td>Later than one year and not later than five years</td> <td>20,850</td> <td>20,654</td> </tr> <tr> <td>Later than five years</td> <td>523,492</td> <td>546,004</td> </tr> <tr> <td></td> <td><u>551,749</u></td> <td><u>573,278</u></td> </tr> <tr> <td>Contingent Rents</td> <td><u>945</u></td> <td><u>1,352</u></td> </tr> </tbody> </table> <p style="text-align: right; color: red;"><i>Revised</i></p>		<u>31 March</u> <u>2019</u> <u>£000</u>	<u>31 March</u> <u>2020</u> <u>£000</u>	Not later than one year	7,407	6,509	Later than one year and not later than five years	20,850	20,182	Later than five years	523,492	527,734		<u>551,749</u>	<u>554,425</u>		<u>31 March</u> <u>2019</u> <u>£000</u>	<u>31 March</u> <u>2020</u> <u>£000</u>	Not later than one year	7,407	6,620	Later than one year and not later than five years	20,850	20,654	Later than five years	523,492	546,004		<u>551,749</u>	<u>573,278</u>	Contingent Rents	<u>945</u>	<u>1,352</u>																																					
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8	Additional information added to accounting policy on going concern	33	1	<p><b>Accounting Policies</b> Information of impact of COVID-19 on the Council's financial position has been added.</p>																																																																						
9	Minor textual changes following EY review made to the Narrative Statement and some of the notes	21 47 48 50 61 73 89 93	Narrative Statement 3 4 5 12 17 26 30	<p>Clarification of cost pressures from COVID-19</p> <p><b>Critical judgements</b> - add cross reference to Note 32 on PFI contracts <b>Major sources of estimation uncertainty</b> - Measurement basis for PPE amended from fair value to current value <b>Prior period adjustments</b> - clarification that the restatement for changes to Cabinet portfolios also applies to Note 8 <b>Property, Plant and Equipment</b> - explanation of council dwellings depreciation policy expanded <b>Financial Instruments</b> - minor clarifications to text/tables <b>Officers' Remuneration</b> - amendment from given name to known name for one of the directors <b>Capital Expenditure</b> - clarification that the capital investment in financial instruments relates to Housing Improvement Loans and amendment to description of sources of finance</p>																																																																						

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<b>DECISION-MAKER:</b>	<b>GOVERNANCE COMMITTEE</b>		
<b>SUBJECT:</b>	<b>EXTERNAL AUDIT – 2019/20 AUDIT RESULTS REPORT</b>		
<b>DATE OF DECISION:</b>	<b>16 NOVEMBER 2020</b>		
<b>REPORT OF:</b>	<b>Ernst &amp; Young LLP</b>		
<b><u>CONTACT DETAILS</u></b>			
<b>AUTHOR:</b>	<b>Name:</b>	<b>David White</b>	<b>Tel:</b>
	<b>E-mail:</b>	<a href="mailto:dwhite@uk.ey.com">dwhite@uk.ey.com</a>	
<b>Director</b>	<b>Name:</b>	<b>Kevin Suter</b>	<b>Tel:</b>
	<b>E-mail:</b>	<a href="mailto:ksuter@uk.ey.com">ksuter@uk.ey.com</a>	

<b>STATEMENT OF CONFIDENTIALITY</b>	
Not Applicable	
<b>BRIEF SUMMARY</b>	
The Audit Results Report summarises the findings from the 2019/20 audit. It includes the messages arising from the audit of the Council’s financial statements and the results of the work undertaken to assess the Council’s arrangements to secure value for money in its use of resources.	
<b>RECOMMENDATIONS:</b>	
	(i) To note the external auditor’s Audit Results Report as attached in the Appendix.
	(ii) To approve the letter of representation.
<b>REASONS FOR REPORT RECOMMENDATIONS</b>	
1.	The Governance Committee’s terms of reference require it to be satisfied that appropriate action is taken on risk and internal control related issues identified by the external auditors. Specifically, the Committee has responsibility for oversight of the reports of external audit.
<b>ALTERNATIVE OPTIONS CONSIDERED AND REJECTED</b>	
	None
<b>DETAIL (Including consultation carried out)</b>	
1.	<p>The audit results report has been shared with officers (the Executive Director Finance and Commercialism, the Head of Financial Planning and Management, the MTFs &amp; Revenue Manager, and the Capital &amp; Treasury Manager - Interim) for comment prior to submission into papers.</p> <p>The letter of representation has been prepared by officers and is a statement to the auditor that all matters relevant to their responsibilities have been declared to the auditor and, where appropriate, presented in the financial statements.</p>

2.	The external auditor will be in attendance at the Governance Committee meeting to answer questions and to provide an update of any further findings identified since the preparation of the audit results report.
<b>RESOURCE IMPLICATIONS</b>	
<b><u>Capital/Revenue</u></b>	
	None
<b><u>Property/Other</u></b>	
	None
<b>LEGAL IMPLICATIONS</b>	
<b><u>Statutory power to undertake proposals in the report:</u></b>	
	<ul style="list-style-type: none"> <li>Local Audit and Accountability Act 2014</li> <li>Accounts and Audit Regulations 2015</li> </ul>
<b><u>Other Legal Implications:</u></b>	
	None
<b>RISK MANAGEMENT IMPLICATIONS</b>	
	None
<b>POLICY FRAMEWORK IMPLICATIONS</b>	
	None

<b>KEY DECISION?</b>	<b>No</b>
<b>WARDS/COMMUNITIES AFFECTED:</b>	N/A
<b><u>SUPPORTING DOCUMENTATION</u></b>	
<b>Appendices</b>	
1.	Audit Results Report 2019/20
2.	Letter of management representation 2019/20

**Documents In Members' Rooms**

1.	None
<b>Equality Impact Assessment</b>	
<b>Do the implications/subject of the report require an Equality and Safety Impact Assessment (ESIA) to be carried out.</b>	<b>No</b>
<b>Data Protection Impact Assessment</b>	
<b>Do the implications/subject of the report require a Data Protection Impact Assessment (DPIA) to be carried out.</b>	<b>No</b>
<b>Other Background Documents</b>	
<b>Other Background documents available for inspection at:</b>	



<b>Title of Background Paper(s)</b>	<b>Relevant Paragraph of the Access to Information Procedure Rules / Schedule 12A allowing document to be Exempt/Confidential (if applicable)</b>
<b>1.</b>	<b>None</b>

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Southampton City  
Council  
Audit results report  
Year ended 31 March 2020

November 2020

Page 77

**EY**

Building a better  
working world

Appendix 1

Agenda Item 9

03 November 2020



Dear Governance Committee Members

We are pleased to attach our audit results report for the forthcoming meeting of the Governance Committee. This report summarises our preliminary audit conclusion in relation to the audit of Southampton City Council for 2019/20. We will issue our final report following the Governance Committee meeting scheduled for 16 November 2020.

We have substantially completed our audit of Southampton City Council for the year ended 31 March 2020.

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

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

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

We welcome the opportunity to discuss the contents of this report with you at the Governance Committee meeting on 16 November 2020.

Yours faithfully

A handwritten signature in blue ink that reads "Kevin Suter".

Kevin Suter

Associate Partner

For and on behalf of Ernst & Young LLP

Encl

# Contents

01 Executive Summary



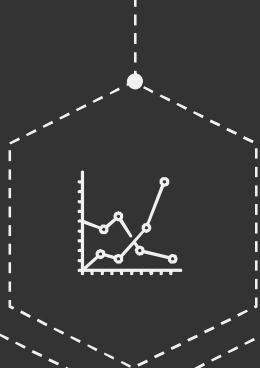
02 Areas of Audit Focus



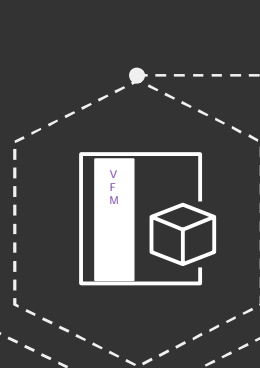
03 Audit Report



04 Audit Differences



05 Value for Money



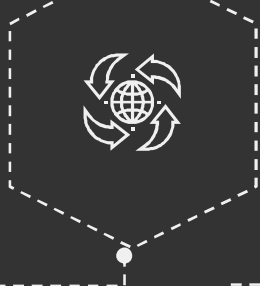
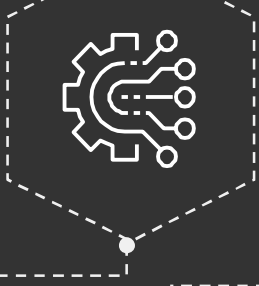
06 Other reporting issues

07 Assessment of Control Environment

08 Data Analytics

09 Independence

10 Appendices



Public Sector Audit Appointments Ltd (PSAA) 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](http://www.psa.co.uk)). This Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

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

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

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



01

# Executive Summary



# Executive Summary

## Scope update

In our audit planning report tabled at the 10 February 2020 Governance Committee meeting, we provided you with an overview of our audit scope and approach for the audit of the financial statements. We carried out our audit in accordance with this plan, with the following exceptions:

### Changes to reporting timescales

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

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

We provided an update to our audit planning report at the 27 July 2020 meeting of the Governance Committee. This highlighted the following changes to our risk assessment:

- Valuation of Property Plant and Equipment and Investment Property - The Royal Institute of Chartered Surveyors (RICS), the body setting the standards for property valuations, has issued guidance to valuers highlighting that the uncertain impact of Covid-19 on markets might cause a valuer to conclude that there is a material uncertainty. Since late March 2020 in the UK, Covid-19 has had a dramatic impact on the occupation of buildings due to the forced closure of restaurants, retail stores, leisure, offices and hotels due to government regulation. We do not know how long the government's measures will last or how long businesses will be impacted. Rental income is expected to fall as tenants may default on their rents or seek to negotiate rent reductions as they can no longer trade effectively. This could have a significant impact on investment properties and we have therefore raised a significant risk in relation to investment property valuations. We have also undertaken additional procedures on property, plant and equipment valued on the basis of market information (existing use value).
- Disclosures on Going Concern - Financial plans for 2020/21 and the medium term will need revision for Covid-19. We considered the unpredictability of the current environment gave rise to a risk that the Local Authority would not appropriately disclose the key factors relating to going concern, underpinned by managements assessment with particular reference to Covid-19 and the Local Authority's actual year end financial position and performance.
- Adoption of IFRS16 - The adoption of IFRS 16 by CIPFA/LASAAC as the basis for preparation of Local Authority Financial Statements has been deferred until 1 April 2021. The Authority will therefore no longer be required to undertake an impact assessment, and disclosure of the impact of the standard in the financial statements does not now need to be financially quantified in 2019/20. We therefore no longer consider this to be an area of audit focus for 2019/20.

### Changes to the scope of our audit as a result of Covid-19

- There have been no changes to the overall scope of our audit as a result of Covid-19.
- Changes in materiality: We updated our planning materiality assessment using the draft financial statements and have also reconsidered our risk assessment. Based on our materiality measure of 1.8% of gross expenditure on provision of services, we have updated our overall materiality assessment to £12.14m (audit planning report – £11.36m). This results in updated performance materiality, at 75% of overall materiality, of £9.105m, and an updated threshold for reporting misstatements of £0.607m.

A summary of our approach to the audit of the balance sheet including any changes to that approach from the prior year audit is included in Appendix A.



# Executive Summary

## Scope update

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

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

Additional EY consultation requirements concerning the impact on auditor reports because of Covid-19. The changes to audit risks, audit approach and auditor reporting requirements changed the level of work we needed to perform.

The fee impact of the changes to our audit will be discussed with management and reported to the Governance Committee as soon as possible.





# Executive Summary

## Status of the audit (continued)

We expect to have substantially completed our audit of Southampton City Council's financial statements for the year ended 31 March 2020 and have performed the procedures outlined in our audit planning report by the time of the Governance Committee meeting. 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 3. However until work is complete, further amendments may arise:

- Property, Plant and Equipment and Investment Property – principally work regarding valuations
- Residual elements of other testing, principally on Grants, Reserves, Expenditure and Disclosures
- Residual elements of Value for money risk-based work
- Review of the Council's going concern assessment, and related internal consultation procedures regarding our auditors' report (audit opinion)
- General audit procedures

The following are also outstanding or are to be completed as part of the conclusion of the audit:

- completion of our audit conclusion procedures
- review of the final version of the financial statements
- completion of subsequent events review
- receipt of the signed management representation letter
- completion of procedures required by the National Audit Office (NAO) regarding the Whole of Government Accounts submission

We do not expect to issue the audit certificate at the same time as the audit opinion as our work on the Authority's WGA submission is subject to a different deadline, and at the time of drafting this report, the NAO have not issued the auditor instructions setting out the required work for 2019/20. The audit certificate will be issued once this work is complete.

Once the internal consultation regarding our audit opinion is complete, we will confirm any matters which the opinion will need to emphasise with regard to going concern or PPE/Investment Property valuations.

# Executive Summary

## Audit differences

We identified one audit difference in the draft financial statements which management has chosen not to adjust. This is in relation to the assumptions used by the actuary of Hampshire Pension Fund to determine their estimate of the Council's defined benefit pension liability. We ask that a rationale as to why it is not corrected be approved by the Governance Committee and included in the Letter of Representation. The aggregated impact of unadjusted audit differences is £4.4m. We agree with management's assessment that the impact is not material. This difference results in overstatement, rather than understatement, of the net pension liability.

We have agreed with management that a prior period adjustment included in the draft financial statements in respect of property, plant and equipment valuations will be reversed. The value of this adjustment is £27.7m. This adjustment has no impact on the opening net book value of PPE.

As our audit work is ongoing at the time of writing this report, further adjusted and unadjusted misstatements may be identified. We will update the Governance Committee at the meeting on 16 November 2020 if we identify any issues from the work that remains outstanding at the time of writing this report.

## Areas of audit focus

Our audit planning report and subsequent update identified key areas of focus for our audit of Southampton City Council's financial statements. This report sets out our observations and conclusions, including our views on areas which might be conservative, and where there is potential risk and exposure. We summarise our consideration of these matters, and any others identified, in the "Areas of Audit Focus" section of this report. The areas of focus were as shown below. Where work is ongoing at the time of writing this report, a verbal update will be provided at the Governance Committee meeting on 16 November.

- Risk of fraud in revenue and expenditure recognition: inappropriate capitalisation of revenue expenditure - no issues have been identified from our work to address this risk at the time of writing this report.
- Misstatements due to fraud or error - no issues have been identified from our work to address this risk at the time of writing this report.
- New Ledger System - no issues have been identified from our work to address this risk
- Valuation of Land and Buildings and Investment Property - no material audit differences have been identified from our work to address this risk at the time of writing this report, but as noted above, this is one of the key areas remaining to be fully completed. A number of recommendations regarding this area are included in section 2 of this report.
- PFI accounting - no issues have been identified from our work to address this risk
- Pension Liability Valuation - our work identified one audit difference, with a value of £4.4m, which is judgmental in nature and has not been adjusted by management.
- Going concern - our work in this area is ongoing
- Restatement of the Comprehensive Income and Expenditure Statement and Expenditure and Funding Analysis, and related notes - no issues have been identified from our work to address this risk

# Executive Summary

---

## Areas of audit focus (continued)

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

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

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

## Control observations

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

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

There are no matters we wish to report.

## 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 identified one significant risk to our value for money conclusion, in relation to informed decision making driven by the OFSTED inspection in November 2019.

We do not expect to have any matters to report about your arrangements to secure economy efficiency and effectiveness in your use of resources.



# Executive Summary

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## Other reporting issues

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

We will perform the procedures required by the National Audit Office (NAO) on the Whole of Government Accounts submission following the completion of the financial statements audit and provide an update to the Committee on the outcome of this work. This does not affect our ability to sign the audit opinion on your financial statements by the accounts publication date of 30 November 2020.

We have no other matters to report.

## Independence

Please refer to Section 9 for our update on Independence. We have no independence issues to report.



## 02 Areas of Audit Focus



# Areas of Audit Focus

## Significant risk

Risk of fraud in revenue and expenditure recognition – inappropriate capitalisation of revenue expenditure

### What is the risk?

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

We have assessed the risk is most likely to occur through the inappropriate capitalisation of revenue expenditure, as there is an incentive to reduce expenditure which is funded from Council Tax. This could then result in funding of that expenditure, that should properly be defined as revenue, through inappropriate sources such as capital receipts, capital grants, or borrowing.

The value of Property, Plant & Equipment (PPE) additions in 2019/20 was £88m, and the value of Investment Property (IP) additions was £0m.

Page 88

### What judgements are we focused on?

Our work has focussed on any judgements exercised in determining whether expenditure is capital in nature, and therefore appropriate to be capitalised rather than charged to the Comprehensive Income and Expenditure Statement.

### What did we do?

Our approach focused on:

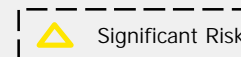
- We selected a sample of additions, using lowered testing thresholds, to test and confirm the item was appropriate to capitalise through agreement to evidence such as invoices and capital expenditure authorisations.
- When performing journals testing, we challenged entries that could be indicative of inappropriate capitalisation, such any significant journals transferring expenditure from non-capital codes to PPE/IP additions or from revenue to capital codes on the general ledger at the end of the year.

### What are our conclusions?

We have a small number of residual queries regarding our testing of additions which are ongoing at this time. We will provide an update to the Governance Committee on 16 November 2020.

Apart from those queries, there are no issues to raise to your attention.

Our documentation of our work on journals is complete and has not identified any indications of inappropriate capitalisation of revenue expenditure.





# 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?

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

Our work on estimates focussed on PPE and Investment Property valuation, IAS19 pension estimates, and PFI valuation, which we have identified as areas of higher inherent risk. Our findings on these areas are set out on the subsequent pages in this section of our report.

#### What did we do?

Our approach focused on:

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

Further to this, we have:

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

#### What are our conclusions?

Our work in relation to this risk is ongoing at the time of writing this report. To date:

- We have not identified any evidence of material management override.
- We have not identified any instances of inappropriate judgements being applied or other management bias both in relation to accounting estimates and other balances and transactions.
- We have not identified any other transactions which appeared unusual or outside the Authority's normal course of business

We will provide an update at the meeting of the Governance Committee on 16 November 2020.





# Areas of Audit Focus

## Significant risk

### New Ledger System

#### What is the risk?

The Council introduced its new Business World financial management system with effect from 01 October 2019. It put in place measures to migrate data on 2019/20 transactions and balances from the old to the new financial management system. The Council's 2019/20 financial statements will be prepared using data taken from the new general ledger at the end of the financial year.

To ensure the production of materially accurate and complete 2019/20 financial statements, it is essential that the Council is assured over the completeness and accuracy of financial data from the old system to its new general ledger. It is also key to ensure the correct implementation of processes and controls related to the new systems, such as timely control account reconciliations.

Page 90

#### What did we do?

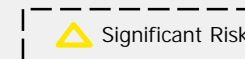
Our approach focused on:

- Meeting with officers to discuss and understand the process for implementing the new financial management system.
- Reviewing the actions taken by the Council to ensure the complete and accurate migration of financial data to the new general ledger. This included reviewing the effectiveness of reconciliation processes. We also undertook our own testing on the completeness and accuracy of data migration on a sample basis.
- Obtaining updates from officers regarding work done to address initial operational issues with the new system.
- Reviewing how data from the new system maps to the statement of accounts, as part of our understanding of the accounts production process for 2019/20.

#### What are our conclusions?

Our work in relation to this risk is substantially complete, subject to final review.

- We have not identified any issues regarding the completeness and accuracy of data migrated from the old ledger system to the new system.
- We have gained a sufficient understanding of the mapping to the statement of accounts to enable our 2019/20 audit work.
- We have not become aware of any ongoing material operational issues arising from the implementation of the new system which have impacted the production of the financial statements.







## Significant risk

### Valuation of Investment Property

Page 91

#### What did we do?

We:

- Considered the work performed by the Council's valuer, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work.
- Sample tested key asset information used by the valuers in performing their valuation and challenge the key assumptions used by the valuer.
- Considered the adequacy of processes management have implemented to ensure the material accuracy of the assets at 31 March since the valuation date.
- Tested accounting entries have been correctly processed in the financial statements.
- Obtained input from EY Real Estates, our internal specialists on asset valuations for Investment Properties, including inputs on market sentiment and how it has been reflected in the ERVs/yields.

#### What is the risk?

The fair value Investment Property (IP) represent significant balances in the Authority's accounts and is subject to valuation changes, impairment reviews and market fluctuations. Management is required to make material judgements and apply estimation techniques to calculate the year-end balances recorded in the balance sheet. ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.

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 in the valuations at year-end.

Since late March 2020 in the UK, Covid-19 has had a dramatic impact on the occupation of buildings due to the forced closure of restaurants, retail stores, leisure, offices and hotels due to government regulation. We do not know how long the government's measures will last or how long businesses will be impacted. Rental income is expected to fall as tenants may default on their rents or seek to negotiate rent reductions as they can no longer trade effectively. This could have a significant impact on investment properties and we have therefore raised a significant risk in relation to investment property valuations.

The value of IP in the draft accounts at 31/03/2020 was £118m.

#### What are our conclusions?

Our work on investment property valuations is in progress at the time of writing this report. Our internal specialists are awaiting responses to two remaining queries (from the overall sample they are reviewing of nine investment properties) which should enable them to conclude their work. We will then be able to finish our work on the element of our sample not being reviewed by our internal specialists.

We will provide an update at the Governance Committee meeting on 16 November.





# Areas of Audit Focus

## Other areas of audit focus

### Valuation of Land and Buildings

#### What is the risk?

The value of Property, Plant and Equipment (PPE) represent a significant balance in the Authority's accounts and is subject to valuation changes, impairment reviews and depreciation charges. Management is required to make material judgemental inputs and apply estimation techniques to calculate the year-end balances recorded in the balance sheet.

ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.

The net book value of PPE in the draft accounts at 31/03/2020 was £1.46bn.

Page 92

#### What did we do?

We:

- Considered the work performed by the Authority's valuer, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work.
- Tested on a sample basis the accuracy of information used by the valuer in performing their valuations (for example floor plans to support valuations based on price per square metre) and challenged the valuer's key assumptions.
- Considered the annual cycle of valuations to ensure that assets have been valued within a suitable rolling programme as required by the Code for PPE.
- Considered the adequacy of processes management have implemented to ensure the material accuracy of the assets at 31 March since the valuation date.
- Confirmed that accounting entries have been correctly processed in the financial statements.

#### What are our conclusions?

Our work on property, plant and equipment valuations is in progress at the time of writing this report. Our internal specialists are awaiting responses to one remaining query (from the overall sample they are reviewing of two assets) which should enable them to conclude their work. We will then be able to finish our work on the element of our sample not being reviewed by our internal specialists.

We will provide an update at the Governance Committee meeting on 16 November.

In our work this year we have identified a number of recommendations in this area, that we believe would benefit both the accounts preparation processes and the audit. These are set out on the next page.



## Areas of Audit Focus

# Recommendations in relation to PPE and Investment Property

### Recommendations for consideration by the Authority

We would make the following recommendations as a result of our work on Property, Plant and Equipment (PPE) and Investment Property (IP):

We are aware that consideration is being given to moving the date at which valuations of the Council's PPE and IP are valued, and we would agree the need for this to be reviewed. Currently, this is 01 April (364 days prior to the balance sheet date). The closer the valuation date is to the balance sheet date, the less consideration is needed around the extent to which the valuations might have moved between the valuation date and balance sheet date, and the less work would be required to support this for the statement of accounts.

Consideration should be given to a cyclical approach to valuing "beacon" properties within the HRA, rather than the current 5 yearly full-valuation and subsequent indexation approach. This should help to ensure the ongoing material accuracy of the valuation of the HRA. Indexation of beacon groups not revalued in any given year should also be undertaken with reference to the March house price index where possible. We have already agreed through the work undertaken this year that a net realisable value adjustment previously incorporated into HRA valuations will be removed.

We have also agreed that there is a need to revisit and refresh the approach taken to HRA depreciation calculations, so that the calculation uses the same valuation for HRA assets as the statement of accounts as its starting point.



# Areas of Audit Focus

## Other areas of audit focus

### Going Concern Disclosure

Page 9

#### What did we do?

In light of the unprecedented nature of Covid-19, its impact on the funding of public sector entities and uncertainty over the form and extent of government support, we sought a documented and detailed consideration to support management's assertion regarding the use of the going concern basis of preparation. Our audit procedures to review this included consideration of:

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

Due to the impact of Covid-19, we also consulted internally with our risk department over the level of disclosure.

#### What is the risk?

Covid-19 has created a number of financial pressures throughout Local Government, increasing service demand and expenditure. The Council has incurred additional expenditure in a number of areas of its operations and has experienced income losses in parking, commercial and leisure services. The extent of support from MHCLG has developed over time, but does not include all financial consequences of Covid-19.

There have been a number of media stories in both the national press and trade publications raising the possibilities of an increase in Chief Financial Officers using their s114 powers. This could be under s114(3), insufficient resources to fund likely expenditure.

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

However, International Auditing Standard 570 Going Concern, as applied by Practice Note 10: Audit of financial statements of public sector bodies in the United Kingdom, still requires auditors to undertake sufficient and appropriate audit procedures to consider whether there is a material uncertainty on going concern that requires reporting by management within the financial statements, and within the auditor's report. We are obliged to report on such matters within the section of our audit report 'Conclusions relating to Going Concern'. To do this, the auditor must review management's assessment of the going concern basis applying IAS1 Presentation of Financial Statements.

#### What are our conclusions?

Our work on going concern is ongoing at the time of writing this report. We will provide an update at the Governance Committee meeting on 16 November.

We have reviewed management's written assessment and are awaiting a supporting cashflow forecast from the Council to demonstrate its liquidity over the foreseeable future period. This will enable us to complete our review, conclude on the proposed disclosure for the statement of account, and then commence the internal consultation process.

The conclusion of our work may indicate an Emphasis of Matter is required for our audit opinion. This is not a qualification, but draws attention to the reader of the accounts such matters that are important for their understanding of the Statement of Accounts, that are properly disclosed. We cannot conclude whether this is required until the work is complete.



# Areas of Audit Focus

## Other areas of audit focus

### PFI accounting

#### What is the risk?

The Authority has two PFI arrangements which are material to our audit. PFI accounting is a complex area, and a detailed review of these arrangements was undertaken by our internal specialist in 2017/18. We will review the accounting entries and disclosures in relation to PFI in detail in 2019/20, with a focus on any significant changes since the specialist's review.

The total finance lease liability for PFIs was £51m at 31/03/2020, and the value of PFI assets was £74m.

#### What did we do?

We:

- Reviewed assurances brought forward from prior years regarding the appropriateness of the PFI financial models.
- Reviewed the PFI financial models for any significant changes.
- Ensured the PFI accounting models had been updated for any service or other agreed variations and confirmed consistency of current year models with prior year brought forward assurances.
- Agreed outputs of the models to the accounts, and reviewed the completeness and accuracy of disclosures.

#### What are our conclusions?

We have reviewed brought forward assurances, reviewed the PFI models for significant changes, and ensured appropriateness of any updates and consistency of current year models with the prior year. We have also agreed the outputs of the models to the accounts.

No issues with PFI accounting have been identified from this work.



# Areas of Audit Focus

## Other areas of audit focus

### Pension Liability Valuation

#### What is the risk?

The Local Authority Accounting Code of Practice and IAS19 require the Authority 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 Authority's balance sheet. The information disclosed is based on the IAS 19 report issued to the Authority by the actuary to the County Council.

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

The net pension liability in the draft accounts at 31 March 2020 was £492m.

Page 96

#### What did we do?

We:

- Liaised with the auditors of Hampshire County Council Pension Fund, to obtain assurances over the information supplied to the actuary in relation to Southampton City Council.
- Assessed the work of the Pension Fund actuary (Aon Hewitt) including the assumptions they used by relying on the work of PWC - Consulting Actuaries commissioned by the National Audit Office for all local government sector auditors, and considering any relevant reviews by the EY actuarial team.
- Reviewed and tested the accounting entries and disclosures made within the Authority's financial statements in relation to IAS19.

#### What are our conclusions?

We have substantially completed our programme of work on the pension liability valuation.

As a result of this work, We identified one audit difference in the draft financial statements which management has chosen not to adjust. This is in relation to the assumptions used by the actuary of Hampshire Pension Fund to determine their estimate of the Council's defined benefit pension liability. The impact of the unadjusted audit difference is a £4.4m overstatement of the net pension liability. We agree with management's assessment that the impact is not material.

We have no other findings to report from our work.



# Areas of Audit Focus

## Other areas of audit focus

Restatement of Comprehensive Income and Expenditure Statement, Expenditure and Funding Analysis, and related disclosure notes

### What is the risk?

Under CIPFA's "Telling the Story" agenda, the Council is required to disclose its income and expenditure in accordance with the structure used for internal reporting, rather than the previous presentation as prescribed by SERCOP.

The Council has changed its internal reporting structure in 2019/20, which will mean the prior period comparators in the Comprehensive Income and Expenditure Statement, the supporting Expenditure and Funding Analysis, and related disclosure notes, will need to be restated in line with the new structure.

Page 97

### What did we do?

We:

- Agreed the restated comparative figures back to the Council's prior year financial statements and supporting working papers
- Reviewed the analysis of how these figures are derived from the Council's ledger system

### What are our conclusions?

We are satisfied that the Comprehensive Income and Expenditure Statement, the Expenditure and Funding Analysis, and related disclosure notes, have been restated appropriately following the change to internal reporting structures.



# 03 Audit Report



## Draft audit report

As set out on page 18, we are unable to conclude on the final form of our audit report until all procedures are completed, especially those relating to Going Concern disclosures. We may include an emphasis of matter relating to the Council's Going Concern disclosures or other impacts of Covid-19 in addition to the form and content set out below.

### INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SOUTHAMPTON CITY COUNCIL

#### Opinion

We have audited the financial statements of Southampton City 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 40 and Expenditure and Funding Analysis, the Collection Fund and the related notes 1 to 4, the Housing Revenue Account, Movement on the HRA Statement and the related notes 1 to 5.

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 Southampton City 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 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 Section 151 Officer's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Section 151 Officer has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Authority's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

## Draft audit report

### Our draft audit report, continued

#### Other information

The other information comprises the information included in the 2019/20 Financial Statements, other than the financial statements and our auditor's report thereon. The Section 151 Officer is responsible for the other information.

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

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

We have nothing to report in this regard.

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

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

In our opinion, based on the work undertaken in the course of the audit, having regard to the guidance issued by the Comptroller and Auditor General in April 2020, we are satisfied that, in all significant respects, Southampton City 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 Authority;
- 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.



# Audit Report

## Draft audit report

### Our draft audit report, continued

#### Responsibility of the Section 151 Officer

As explained more fully in the Statement of Responsibilities set out on page 22, the Section 151 Officer is responsible for the preparation of the Financial Statements, 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 Section 151 Officer is responsible for assessing the Authority's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Authority either intends to cease operations, or have no realistic alternative but to do so.

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

#### Auditor's responsibilities for the audit of the financial statements

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

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 in April 2020, as to whether Southampton City 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 Southampton City Council put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2020.



# Audit Report

## Draft audit report

### Our draft audit report, continued

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, Southampton City 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 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.

### Delay in certification of completion of the audit

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



# 04 Audit Differences





# Audit Differences

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

## Summary of adjusted differences

We highlight the following misstatements greater than £9.1m identified during the course of our audit to date which have been amended in the final version of the financial statements:

We have agreed with management that a prior period adjustment included in the draft financial statements in respect of property, plant and equipment valuations will be reversed. The value of this adjustment is £27.7m. This adjustment has a netting impact on the cost and accumulated depreciation elements of the PPE disclosure note. It has no impact on the opening net book value of PPE in the balance sheet.

Page number of adjusted differences have also been identified in disclosure notes.

Page  
104

## Summary of unadjusted differences

We report to you any uncorrected misstatements greater than our nominal value of £0.607m.

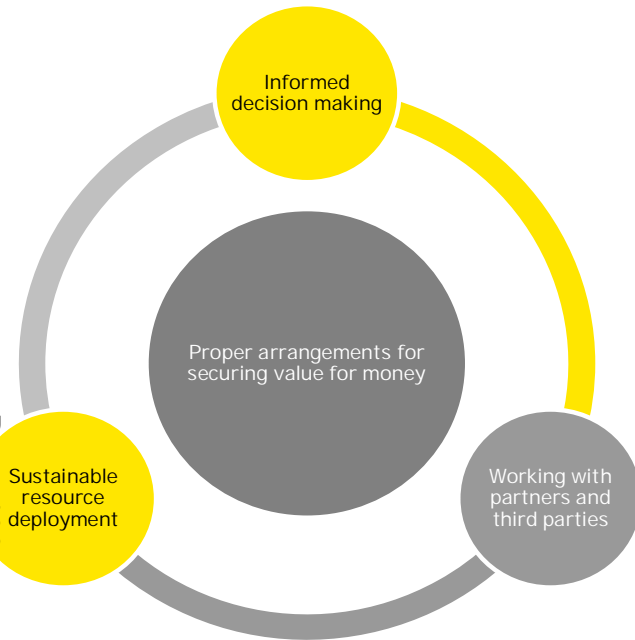
We identified one audit difference in the draft financial statements which management has chosen not to adjust. This is in relation to the assumptions used by the actuary of Hampshire Pension Fund to determine their estimate of the Council’s defined benefit pension liability. We ask that a rationale as to why it is not corrected be approved by the Governance Committee and included in the Letter of Representation. The impact of the unadjusted audit difference is a £4.4m overstatement of the net pension liability. We agree with management’s assessment that the impact is not material.

As our audit work is ongoing at the time of writing this report, further adjusted and unadjusted misstatements may be identified. We will provide an update at the Governance Committee meeting on 16 November 2020.



05

## Value for Money Risks



## Background

We are required to consider whether the Authority 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 identified one significant risk around these arrangements, in relation to making informed decisions, as a result of the November 2019 OFSTED report on Children’s Social Care Services, and subsequent whistleblowing allegations. The table below presents our findings in response to the risk in our audit planning report and any other significant weaknesses or issues we want to bring to your attention.

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





## Value for Money Risks

We are only required to determine whether there are any risks that we consider significant within the Code of Audit Practice, where risk is defined as:

*"A matter is significant if, in the auditor's professional view, it is reasonable to conclude that the matter would be of interest to the audited body or the wider public"*

Our risk assessment supports the planning of enough work to deliver a safe conclusion on your arrangements to secure value for money, and enables us to determine the nature and extent of any further work needed. If we do not identify a significant risk we do not need to carry out further work.

The section below presents the findings of our work in response to the risks area in our audit planning report and audit plan update. No further risks were identified during the course of our audit.

### What is the significant value for money risk?

The OFSTED inspection of children's social care services, undertaken in November 2019, graded the service "requires improvement to be good" across the 4 main areas covered by the report:

- The impact of leaders on social work practice with children and families
- The experiences and progress of children who need help and protection
- The experiences and progress of children in care and care leavers
- Overall effectiveness

The report comments on a number of areas where improvements are required going forward, to bring the service up to the level needed to achieve a Good rating in a future inspection.

Since our Audit Plan was issued, we have also become aware of whistleblowing allegations relating to the children's social care services. We will therefore review the actions taken by the Council to respond to this as part of our work on the identified value for money risk.

### What arrangements did the risk affect?

Informed decision making



## Value for Money Risks

### What did we do?

We:

- Compared the detailed findings of the OFSTED report with the NAO's value for money criteria, to assess the significance of the individual findings to our responsibilities;
- Compared the detailed findings with those reported when the previous OFSTED inspection was carried out in 2014 (when the overall outcome was also "requires improvement"), to assess the significance of any changes in reported judgments; and
- Reviewed the appropriateness of the arrangements put in place by the Council to address the findings of the OFSTED report and to monitor progress against agreed action plans.
- Reviewed the actions taken by the Council to respond to the whistleblowing allegations relating to Children's Social Care Services

Page 108

### What are our findings?

Our value for money conclusion work remains subject to final completion at the time of writing this report. We currently expect to conclude as follows:

A number of the findings of the OFSTED report were relevant to our value for money responsibilities, under all three sub-criteria set out by the NAO (informed decision making, sustainable resource deployment, and working with partners and third parties).

There was some commonality of findings between the 2019 OFSTED report and the previous inspection in 2014, which supported OFSTED's review that improvement in the intervening period had been "uneven and too slow".

The arrangements put in place by the Council to address the OFSTED findings, including setting up a Children & Families Service Improvement Board, creating a detailed action plan and seeking review of that plan by Hampshire County Council, are judged appropriate.

The actions taken to address the subsequent whistleblowing allegations – primarily the commissioning of a review by an independent inspector, resulting in a series of recommendations drawing on their work and previous internal reviews of the service – are judged appropriate.

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



## 06 Other reporting issues

## Other reporting issues

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

We must give an opinion on the consistency of the financial and non-financial information in the 2019/20 Financial Statements 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 2019/20 Financial Statements and published with the financial statements was consistent with the audited financial statements.

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

Page

110

### Whole of Government Accounts

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

We do not expect to issue the audit certificate at the same time as the audit opinion as our work on the Authority's WGA submission is subject to a different deadline, and at the time of drafting this report the NAO have not issued the auditor instructions setting out the required work for 2019/20. The audit certificate will be issued once this work is complete.

# 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

Page 11

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;
- Expected modifications to the audit report;
- Any other matters significant to overseeing the financial reporting process;
- Related parties;
- External confirmations;
- Consideration of laws and regulations; and
- Group audits

We have no other matters to report at the time of writing this report. We will provide a further update if required at the meeting of the Governance Committee on 16 November 2020.



07

# Assessment of Control Environment



# Assessment of Control Environment

## Financial controls

It is the responsibility of the Authority to develop and implement systems of internal financial control and to put in place proper arrangements to monitor their adequacy and effectiveness in practice. Our responsibility as your auditor is to consider whether the Authority 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 not tested the operation of controls.

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

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

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



# 08 Data Analytics





# Use of Data Analytics in the Audit

## Data analytics – Income & expenditure testing, payroll testing and journals

### Analytics Driven Audit

#### Data analytics

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

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

In 2019/20, our use of these analysers in the Authority's audit included selecting samples for general income and expenditure testing, testing payroll costs, and identifying and focusing our journals testing on those entries we deemed to have the highest inherent risk to the audit.

We captured the data through our formal data requests and the data transfer took place on a secured EY website. The transfer methodology is 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 obtained downloads of all of the Authority's financial ledger transactions posted in the year. We performed 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 reviewed and sorted transactions, allowing us to more effectively identify and test journals that we considered to be higher risk, as identified in our audit planning report.

#### Payroll Analysis

We also used our analysers in our payroll testing. We obtained all payroll transactions posted in the year from the General Ledger and performed completeness analysis over the data and procedures to understand the data and identify unusual items. We also reconciled the GL amount to the payroll subledger. We then analysed the data against a number of specifically designed procedures.



Page 116

09

# Independence

## Confirmation and analysis of Audit fees

We confirm that there are no changes in our assessment of independence since our confirmation in our audit planning board report dated 23 January 2020.

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

We consider that our independence in this context is a matter that should be reviewed by both you and ourselves. It is therefore important that you consider the facts of which you are aware and come to a view. If you wish to discuss any matters concerning our independence, we will be pleased to do so at the forthcoming meeting of the Governance Committee on 16 November 2020.

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

As part of our reporting on our independence, we set out below a summary of fees for the year ended 31 March 2020.

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

Description	Final Fee 2019/20 £	Planned Fee 2019/20 £	Final Fee 2018/19 £
Total Audit Fee – Code work	TBC*	121,891	109,891

\*Our 2019/20 final fee remains subject to confirmation. We will assess the level of additional fees which we will propose and discuss these with management as soon as possible. This will be with regard to:

- Additional work performed on property plant and equipment and investment property
- Going concern procedures
- CIES/EFA restatement

Additional fees for work undertaken on the new ledger system significant risk and value for money significant risk are expected to be as originally scoped.

These proposed additional fees will be subject to agreement with the Section 151 Officer and will be reported to the Governance Committee once agreed.

# Independence



## Relationships, services and related threats and safeguards



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

There are no relationships from 01 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 previous page includes a summary of the fees that you have paid to us in the year ended 31 March 2020 in line with the disclosures set out in FRC Ethical Standard and in statute.

We confirm that none of the services provided to the Council has been on a contingent fee basis.

As at the date of this report, there are no future services which have been contracted and no written proposal to provide non-audit services has been submitted.

## 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
- Page 119
- 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 will continue to monitor and assess all ongoing and proposed non-audit services and relationships to ensure they are permitted under FRC Revised Ethical Standard 2016 which will continue to apply until 31 March 2020 as well as the recently released FRC Revised Ethical Standard 2019 which will be effective from 1 April 2020. We will work with you to ensure orderly completion of the services or where required, transition to another service provider within mutually agreed timescales.

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](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

## Audit approach update

We summarise below our approach to the audit of the balance sheet and any changes to this approach from the prior year audit. The audit approach to all material balance sheet items is shown.

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

- Existence: An asset, liability and equity interest exists at a given date
- Rights and Obligations: An asset, liability and equity interest pertains to the entity at a given date
- Completeness: There are no unrecorded assets, liabilities, and equity interests, transactions or events, or undisclosed items
- Valuation: An asset, liability and equity interest is recorded at an appropriate amount and any resulting valuation or allocation adjustments are appropriately recorded

Page 122 Presentation and Disclosure: Assets, liabilities and equity interests are appropriately aggregated or disaggregated, and classified, described and disclosed in accordance with the applicable financial reporting framework. Disclosures are relevant and understandable in the context of the applicable financial reporting framework

All material figures in the Balance Sheet have been substantively tested, as set out in our Audit Planning Report of January 2020. This is consistent with our audit approach in the prior year.



## Appendix B

# Summary of communications




Date	Nature	Summary
10/02/2020	Report	The audit planning report, including confirmation of independence, was presented to the Governance Committee.
27/07/2020	Report	The audit planning report update, setting out our updated risk assessment in light of Covid-19, was presented to the Governance Committee.
16/11/2020	Report	The audit results report, including confirmation of independence, was presented to the Governance Committee.
Monthly throughout the year	Meetings	The partner in charge of the engagement, and audit manager, met with the Executive Director Finance and Commercialism and the Head of Financial Planning and Management, to discuss matters of relevance to the audit, Council and sector

In addition to the above specific meetings, the audit team met with the officers multiple times throughout the audit to discuss audit progress and findings.




## Appendix C

# Required communications with the Governance Committee

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

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

# Appendix C

Required communications	 What is reported?	  When and where
Major Local Audits	<p>For the audits of financial statements of public interest entities/major local audits our written communications to the Governance Committee include:</p> <ul style="list-style-type: none"> <li>• A declaration of independence</li> <li>• The identity of each key audit partner</li> <li>• The use of non-member firms or external specialists and confirmation of their independence</li> <li>• The nature and frequency of communications</li> <li>• A description of the scope and timing of the audit</li> <li>• Which categories of the balance sheet have been tested substantively or controls based and explanations for significant changes to the prior year, including first year audits</li> <li>• Materiality</li> <li>• Any going concern issues identified</li> <li>• Any significant deficiencies in internal control identified and whether they have been resolved by management</li> <li>• Subject to compliance with regulations, any actual or suspected non-compliance with laws and regulations identified relevant to the Governance Committee</li> <li>• Subject to compliance with regulations, any suspicions that irregularities, including fraud with regard to the financial statements, may occur or have occurred, and the implications thereof</li> <li>• The valuation methods used and any changes to these including first year audits</li> <li>• The scope of consolidation and exclusion criteria if any and whether in accordance with the reporting framework</li> <li>• The completeness of documentation and explanations received</li> <li>• Any significant difficulties encountered in the course of the audit</li> <li>• Any significant matters discussed with management</li> <li>• Any other matters considered significant</li> </ul>	<p>Audit Planning Report – February 2020</p> <p>Audit Results Report – November 2020</p>

# Appendix C





		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"> <li>• Whether the events or conditions constitute a material uncertainty</li> <li>• Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements</li> <li>• The adequacy of related disclosures in the financial statements</li> </ul>	Audit Results Report – November 2020
Misstatements	<ul style="list-style-type: none"> <li>• Uncorrected misstatements and their effect on our audit opinion</li> <li>• The effect of uncorrected misstatements related to prior periods</li> <li>• A request that any uncorrected misstatement be corrected</li> <li>• Material misstatements corrected by management</li> </ul>	Audit Results Report – November 2020
Subsequent events	<ul style="list-style-type: none"> <li>• Enquiry of the Governance Committee where appropriate regarding whether any subsequent events have occurred that might affect the financial statements.</li> </ul>	Audit Results Report – November 2020
Fraud	<ul style="list-style-type: none"> <li>• Enquiries of the Governance Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the Authority</li> <li>• Any fraud that we have identified or information we have obtained that indicates that a fraud may exist</li> <li>• Unless all of those charged with governance are involved in managing the Authority, any identified or suspected fraud involving:               <ol style="list-style-type: none"> <li>a. Management;</li> <li>b. Employees who have significant roles in internal control; or</li> <li>c. Others where the fraud results in a material misstatement in the financial statements.</li> </ol> </li> <li>• The nature, timing and extent of audit procedures necessary to complete the audit when fraud involving management is suspected</li> <li>• Any other matters related to fraud, relevant to Governance Committee responsibility.</li> </ul>	Audit Results Report – November 2020

Page 126

# Appendix C

		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"> <li>• Non-disclosure by management</li> <li>• Inappropriate authorisation and approval of transactions</li> <li>• Disagreement over disclosures</li> <li>• Non-compliance with laws and regulations</li> <li>• Difficulty in identifying the party that ultimately controls the Authority</li> </ul>	Audit Results Report – November 2020
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"> <li>• The principal threats</li> <li>• Safeguards adopted and their effectiveness</li> <li>• An overall assessment of threats and safeguards</li> <li>• Information about the general policies and process within the firm to maintain objectivity and independence</li> </ul> <p>Communications whenever significant judgments are made about threats to objectivity and independence and the appropriateness of safeguards put in place.</p>	<p>Audit Planning Report – February 2020</p> <p>Audit Results Report – November 2020</p>
External confirmations	<ul style="list-style-type: none"> <li>• Management's refusal for us to request confirmations</li> <li>• Inability to obtain relevant and reliable audit evidence from other procedures.</li> </ul>	We have received all requested confirmations
Consideration of laws and regulations	<ul style="list-style-type: none"> <li>• 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</li> <li>• Enquiry of the Governance Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the Governance Committee may be aware of.</li> </ul>	We have asked management and those charged with governance. We have not identified any material instances or non-compliance with laws and regulations

# Appendix C

		 Our Reporting to you
Required communications	 What is reported?	  When and where
Significant deficiencies in internal controls identified during the audit	<ul style="list-style-type: none"> <li>Significant deficiencies in internal controls identified during the audit.</li> </ul>	Audit Results Report – November 2020
Consideration of laws and regulations	<ul style="list-style-type: none"> <li>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</li> <li>Enquiry of the Governance Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the Governance Committee may be aware of.</li> </ul>	We have asked management and those charged with governance. We have not identified any material instances or non-compliance with laws and regulations
Written representations we are requesting from management and/or those charged with governance	<ul style="list-style-type: none"> <li>Written representations we are requesting from management and/or those charged with governance</li> </ul>	Audit Results Report – November 2020
Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	<ul style="list-style-type: none"> <li>Material inconsistencies or misstatements of fact identified in other information which management has refused to revise</li> </ul>	Audit Results Report – November 2020
Auditors report	<ul style="list-style-type: none"> <li>Any circumstances identified that affect the form and content of our auditor’s report</li> </ul>	Audit Results Report – November 2020
Fee Reporting	<ul style="list-style-type: none"> <li>Breakdown of fee information when the audit planning report is agreed</li> <li>Breakdown of fee information at the completion of the audit</li> <li>Any non-audit work</li> </ul>	Audit Planning Report – February 2020
		Audit Results Report – November 2020

Page 18

# Management representation letter

## Provisional Management Representation Letter

Ernst & Young LLP

Grosvenor House  
Grovesnor Square  
Southampton  
Hampshire  
SO15 2BE

This letter of representations is provided in connection with your audit of the financial statements of Southampton City 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 Southampton City 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 and Ireland), which involves an examination of the accounting system, internal control and related data to the extent you considered necessary in the circumstances, and is not designed to identify - nor necessarily be expected to disclose - all fraud, shortages, errors and other irregularities, should any exist.

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

### A. Financial Statements and Financial Records

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

2. We acknowledge, as members of management of the Council, our responsibility for the fair presentation of the financial statements. We believe the financial statements referred to above give a true and fair view of the financial position, financial performance (or results of operations) and cash flows of the Council in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20. We have approved the financial statements.
3. The significant accounting policies adopted in the preparation of the financial statements are appropriately described in the financial statements.
4. As members of management of the Council, we believe that the Council has a system of internal controls adequate to enable the preparation of accurate financial statements in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20, that are free from material misstatement, whether due to fraud or error. We have disclosed to you any significant changes in our processes, controls, policies and procedures that we have made to address the effects of the COVID-19 pandemic on our system of internal controls.
5. We believe that the effects of any unadjusted audit differences, summarised in the accompanying schedule, accumulated by you during the current audit and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements taken as a whole. We have not corrected these differences identified by and brought to the attention from the auditor because [\[specify reasons for not correcting misstatement\]](#).

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

1. We acknowledge that we are responsible to determine that the Council’s activities are conducted in accordance with laws and regulations and that we are responsible to identify and address any non-compliance with applicable laws and regulations, including fraud.
2. We acknowledge that we are responsible for the design, implementation and maintenance of internal controls to prevent and detect fraud.

# Management representation letter

3. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
  4. We have no knowledge of any identified or suspected non-compliance with laws or regulations, including fraud that may have affected the Council (regardless of the source or form and including, without limitation, allegations by “whistleblowers”) including non-compliance matters:
    - involving financial statements;
    - related to laws and regulations that have a direct effect on the determination of material amounts and disclosures in the Council’s financial statements;
    - related to laws and regulations that have an indirect effect on amounts and disclosures in the financial statements, but compliance with which may be fundamental to the operations of the Council’s activities, its ability to continue to operate, or to avoid material penalties;
    - involving management, or employees who have significant roles in internal controls, or others; or
    - in relation to any allegations of fraud, suspected fraud or other non-compliance with laws and regulations communicated by employees, former employees, analysts, regulators or others.
- C. Information Provided and Completeness of Information and Transactions
1. We have provided you with:
    - Access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
    - Additional information that you have requested from us for the purpose of the audit; and
    - Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
  2. All material transactions have been recorded in the accounting records and are reflected in the financial statements.
  3. We have made available to you all minutes of the meetings of the Council and the Cabinet held through the year to the most recent meeting on the following date: 16 November 2020.
  4. We confirm the completeness of information provided regarding the identification of related parties. We have disclosed to you the identity of the Council’s related parties and all related party relationships and transactions of which we are aware, including sales, purchases, loans, transfers of assets, liabilities and services, leasing arrangements, guarantees, non-monetary transactions and transactions for no consideration for the period ended, as well as related balances due to or from such parties at the year end. These transactions have been appropriately accounted for and disclosed in the financial statements.
  5. We believe that the significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable.
  6. We have disclosed to you, and the Council has complied with, all aspects of contractual agreements that could have a material effect on the financial statements in the event of non-compliance, including all covenants, conditions or other requirements of all outstanding debt.
  7. From the date of our last management representation letter (30 September 2019) through the date of this letter we have disclosed to you any unauthorized access to our information technology systems that either occurred or to the best of our knowledge is reasonably likely to have occurred based on our investigation, including of reports submitted to us by third parties (including regulatory agencies, law enforcement agencies and security consultants) , to the extent that such unauthorized access to our information technology systems is reasonably likely to have a material impact to the financial statements, in each case or in the aggregate.



# Management representation letter

## D. Liabilities and Contingencies

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

## E. Subsequent Events

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

## F. Other information

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

## G. Use of the Work of a Specialist

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

## H. Estimates

1. We believe that the measurement processes, including related assumptions and models, used to determine the accounting estimates have been consistently applied and are appropriate in the context of the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.
2. We confirm that the significant assumptions used in making the valuation of property, plant and equipment, IAS19 pension liability, and PFI valuation estimates appropriately reflect our intent and ability to carry out specific courses of action on behalf of the entity.
3. We confirm that the disclosures made in the financial statements with respect to the accounting estimates are complete and made in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.
4. We confirm that no adjustments are required to the accounting estimates and disclosures in the financial statements due to subsequent events, including due to the COVID-19 pandemic.

## I. Retirement benefits

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

## J. Going Concern

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



## Appendix D

# Management representation letter

I confirm that this letter has been discussed and agreed by the Authority on 16 November 2020

Name: John Harrison

Position: Section 151 Officer



Name: Councillor Eamonn Keogh

Position: Chairman of the Governance Committee

## Accounting and regulatory update



### Future accounting developments

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

Name	Summary of key measures 	Impact 
IFRS 16	<ul style="list-style-type: none"> <li>The adoption of IFRS 16 by CIPFA/LASAAC as the basis for preparation of Local Authority Financial Statements has been deferred until 1 April 2021. The Authority will therefore no longer be required to undertake an impact assessment, and disclosure of the impact of the standard in the financial statements does not now need to be financially quantified in 2019/20.</li> </ul>	<ul style="list-style-type: none"> <li>The Council should keep its implementation arrangements under review, including the timetable for gathering related information for the year of adoption and prior period comparators.</li> </ul>

### Regulatory update

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

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

About EY

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

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ED None

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